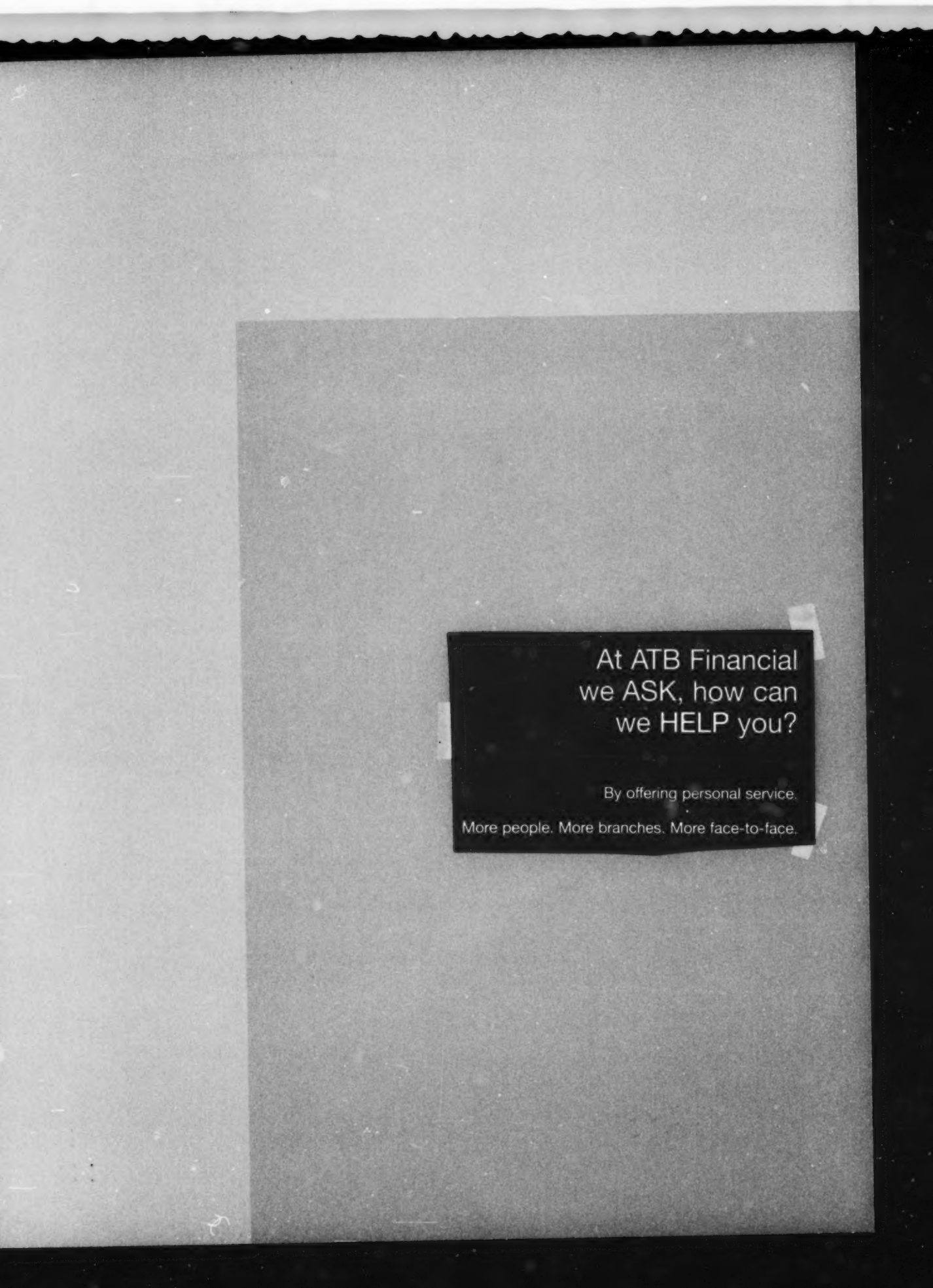
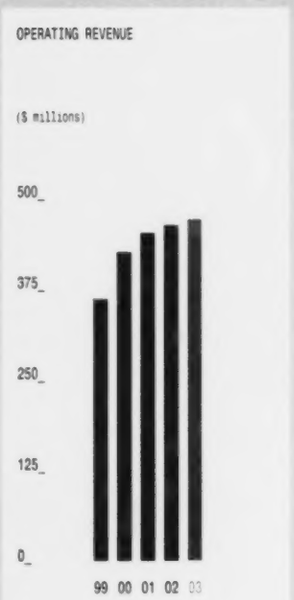
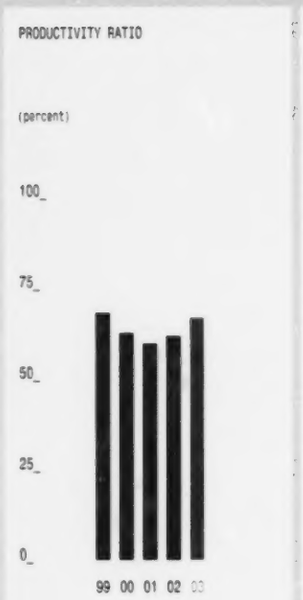
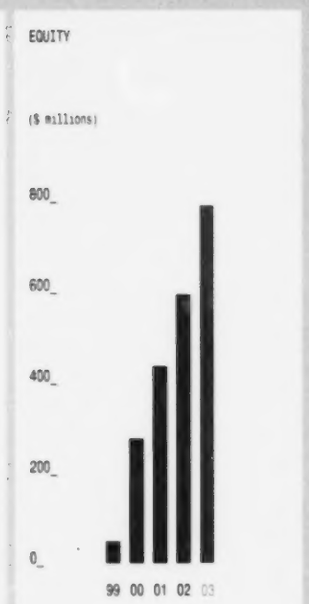

At ATB Financial
we ASK, how can
we HELP you?
By offering personal service.
More people. More branches. More face-to-face.

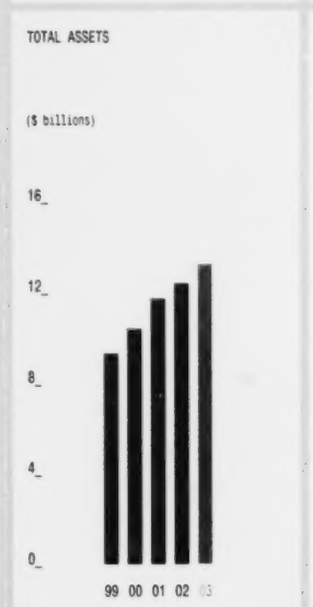
ATB Financial
HIGHLIGHTS

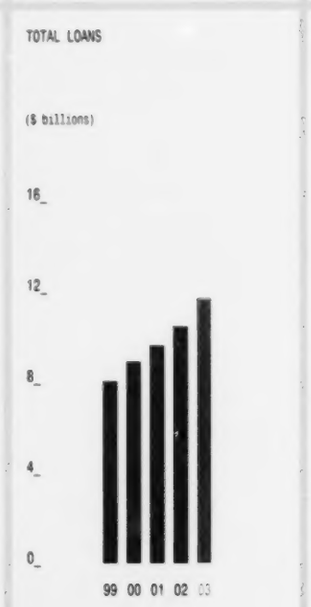
For the years ended March 31	2003	2002	2001	2000	1999
Financial Position ($ thousands)					
Total deposits	12,096,911	11,425,210	10,918,863	9,924,626	9,022,310
Total loans	11,691,482	10,400,563	9,554,252	8,933,575	8,036,775
Equity	790,937	592,033	434,107	272,638	44,148
Operating Results ($ thousands)					
Interest income	697,524	739,445	809,826	703,741	630,584
Interest expense	333,364	373,862	447,857	371,870	343,652
Net interest income	364,160	365,583	361,969	331,871	286,932
Provision for (recovery of) credit losses	(43,211)	21,095	20,969	(41,821)	3,787
Net interest income after provision for (recovery of) credit losses	407,371	344,488	341,000	373,692	283,145
Other income	107,442	101,209	89,075	94,560	74,120
Net interest and other income	514,813	445,697	430,075	468,252	357,265
Non-interest expense	315,909	287,771	268,606	239,762	246,573
Net income	198,904	157,926	161,469	228,490	110,692
Statistical Highlights					
Customer deposit accounts	1,179,851	1,128,279	1,119,164	1,011,880	1,030,300
Customer loan accounts	248,547	241,154	236,128	211,695	206,598
Branches	145	145	144	144	148
Agencies	131	131	130	130	129
Staff (full-time equivalents)	2,850	2,714	2,675	2,505	2,493
Performance Measures (percent)					
Operating revenue growth	1.03	3.49	5.77	18.11	14.04
Net interest margin	2.85	3.00	3.26	3.33	3.16
Other income to operating revenue	22.78	21.68	19.75	22.17	20.53
Expenses to operating revenue	66.99	61.65	59.55	56.23	68.29
Return on average assets	1.55	1.29	1.46	2.29	1.22
Operating expense growth	9.78	7.13	12.03	(2.76)	4.77
Net impaired loans to total gross loans	(0.70)	(0.82)	(0.49)	(0.36)	(0.30)
Credit losses to average loans	(0.39)	0.21	0.22	(0.49)	0.05
Loan growth	12.41	8.86	6.95	11.16	7.73
Deposit growth	5.88	4.64	10.02	10.00	3.39
Asset growth	6.86	5.96	11.67	12.49	5.26

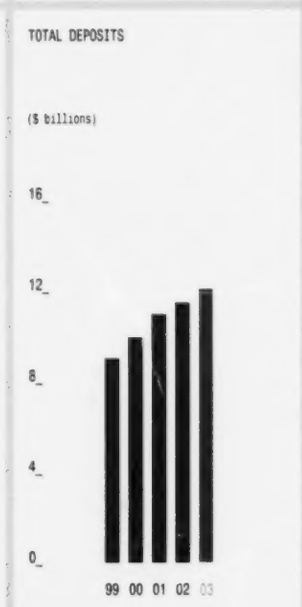












Sixty-five years is a significant milestone, and ATB Financial can take considerable pride in our record of assisting Albertans since 1938. While we celebrate this anniversary, the ATB team continues to work extremely hard for Albertans. I would like to share with you the ways in which ATB Financial's Board of Directors ensures that this organization provides Alberta and Albertans with leading financial products and services.

The mandate of ATB Financial is to operate as a full-service financial institution serving Albertans, while earning returns comparable to the private sector. As a provincial Crown corporation, ATB Financial operates at arm's length from Government and the ATB Financial Board and management manage day-to-day operations independently.

I would like to acknowledge the strong support of Alberta Finance, on behalf of our shareholder. During the past year several regulatory changes, discussed in the Management's Discussion and Analysis, were implemented, broadening ATB Financial's powers. As well, with the support of the Minister of Finance, the provincial Cabinet approved two ATB subsidiaries, ATB Investment Management Inc. and ATB Securities Inc., two important platforms for our Investor Services offering.

Under the stewardship of the Board of Directors, ATB Financial continues to build on its proud heritage of serving Albertans. The organization has developed an

103-05093/

enviable franchise, with market share growing across all lines of business. And a strong equity base has been established, building a solid foundation for the future.

We are meeting our customers' changing needs in an increasingly complex marketplace and we validate this through customer satisfaction research conducted annually. We are pleased to report that ATB Financial's satisfaction score is among the best in the industry.

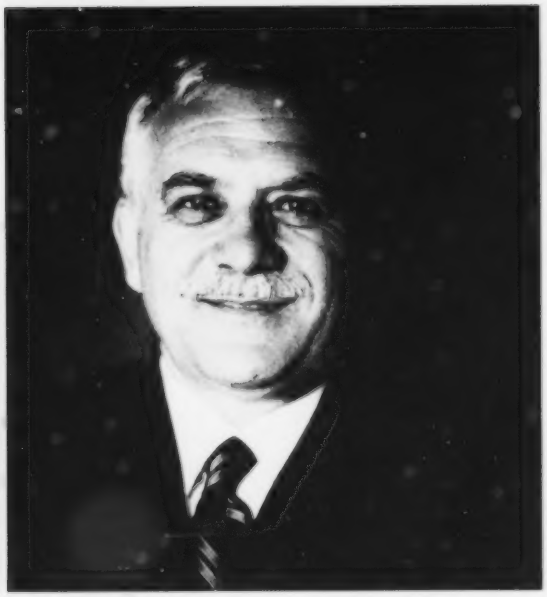
ATB Financial associates are also surveyed annually to obtain feedback and measure employee engagement. Management uses these results to ensure we continue to support our associates in their dedication to providing outstanding personal service to our customers. Our goal is to be one of the top 50 companies to work for in Canada.

The use of these and other performance measures contribute to our bottom line. ATB Financial has established a track record of competitive profits. Return on assets, credit losses and efficiency are in the top quartile, compared to the chartered banks.

Since our first Board took office in 1996, our priorities have been to establish the very best practices in corporate governance. For this reason, ATB Financial has voluntarily adopted the Toronto Stock Exchange guidelines established for all TSX-listed corporations, even though as a Crown corporation, we are not subject to these requirements. Further disclosure of our corporate governance model can be found on page 69 of this report.

Every member of the Board of Directors understands their responsibility to be vigilant, and to ensure that our processes evolve continually to reflect the best practices of corporate governance. We are resolved to continue to do that.

Ron P. Triffo / Chairman of the Board



Bob Normand / President and Chief Executive Officer

How can we help you? What truly differentiates ATB Financial is our personal service.

ATB was created in 1938 to serve Albertans. When one of our associates asks the simple question "How can we help you?" they continue ATB Financial's tradition of personal service. This is our passion as well as our legacy.

How is the ATB Financial customer experience different from other financial institutions?

More people. More branches. More face-to-face.

We are proud of the fact that the ATB Financial team is the largest of any financial institution serving Albertans. Our team of 3,000 associates serves over 240 communities across Alberta through our network of branches and agencies. This, combined with 200 associates answering the phones at the Customer Contact Centre, allows our customers to easily talk to us to answer their questions, resolve any concerns, or complete their financial transactions. Our customer satisfaction data tells us that customers want the choice of either talking to a person or using electronic banking services. The size of our ATB Financial team makes it easier for our customers to talk to one of our associates whenever they choose.

More people. More branches. More face-to-face.

Over the past five years, ATB Financial has invested heavily in our branches. While our competitors have consolidated services across the province, we have been opening, renovating and relocating branches. In fiscal 2004, we plan to continue investing in new branches as we work towards our target of opening up to five new branches each year. More branch locations allow ATB Financial to be where our customers want to bank. And, as we open new branches, we are adding more people to our ATB Financial team.

More people. More branches. More face-to-face.

Our customer satisfaction data also tells us that our customers truly value a person answering the phones at our branches or at the Customer Contact Centre. Personal service for them means that they speak directly to one of our associates, and not an automated voice response system. The ATB Financial team – 3,000 strong – ensures that our customers always have the choice of talking directly to one our associates to meet their financial needs. ATB Financial complements this investment in people with electronic banking services and state-of-the-art platforms to complete financial transactions.

It is this commitment to investing in more people, more branches, more face-to-face that sets apart ATB Financial. A commitment to friendly, helpful service focused on the customer's best interests – ATB Financial's personal service – is one reason why our customer satisfaction ratings are among the best in the industry. I want to thank our associates who work so hard to serve their communities and their customers.

ATB Financial's New Generation

This past year was significant and marks the first year of "our new generation". We kicked off three important initiatives with an investment in our future. We invested in our wealth management offering and introduced Investor Services. We made a bold move to broaden our Energy and Commercial business, and we are refreshing our branch-based Personal and Business Banking group.

Investor Services fills a significant gap in our offering. Our customers needed more advice to handle their growing retirement and investment needs than we were able to provide. That has all changed, with the growing capability of our professional advisor team supported by a more expansive product offering. We believe our strength is combining our strong personal service focus, with our experienced professional advisors, and a greatly enhanced investment capability. The early results are encouraging.

Commercial banking has been successful at ATB Financial for a number of years. However, we recognized it was time for us to make an even greater investment in the Energy and Commercial Banking sector. Our customers require money to grow their businesses in Alberta and we are in a perfect position to be that partner. Local decision-making and industry specialization will be the foundation for our growth.

Personal and business banking is the heart and the engine of our company, and we are making a significant investment in branch banking. Our primary objective is to serve customers better. Investments in people, new branches especially in Calgary and Edmonton and new technologies will help our customers in our branches or

calling our Customer Contact Centre navigate in an increasingly complex banking world. It will also ensure we continue to deliver our personal service commitment.

Associates, Customers and Shareholder

Our personal service promise truly is our passion and our legacy. But that's just part of the equation. We need to ensure the way we operate internally supports our promise. For us, that means focusing on associates, customers and financial performance.

At ATB Financial everything starts with our associates. We believe that the way we deal with ourselves will be reflected in how we deal with our customers. Investing heavily in training, competitive compensation and benefit plans, conducive work environments, career growth, work enrichment, strong leadership and work/life balance are just a few of the ways we support our associates. Our objective is to retain and attract the best team possible. Anything less is a compromise.

Our customers demand and expect the best. That is their right. The challenge we face is keeping ahead of our customers' changing needs. To help us do that, every year we conduct extensive customer satisfaction research. We ask customers how happy they are with our service, if they plan to continue to bank with us, how they view the competitive advantage of dealing with

ATB Financial and if they would recommend ATB Financial to others. By keeping in touch with customers we can focus on the actions they tell us will enhance satisfaction and loyalty to earn their ultimate compliment...a referral.

Consistent, profitable financial performance is absolutely critical to our ongoing success. Without it, trust and confidence will erode, and our ability to invest in the business will suffer. ATB Financial has achieved 24 consecutive quarters of profitability and has gone from a deficit six years ago to almost $800 million in equity today. This is a remarkable accomplishment and a testament to our customers, associates and the strength of our business. To achieve that level of financial performance, we try to ensure that everything we do results in a positive financial outcome through increased revenue or improvement in efficiency, with a win for customers and our associates alike. We know that sounds like a tall order, but it serves to ground us at the start of any new initiative.

We have enjoyed tremendous growth and loyalty for a number of years. I would like to say thanks to our customers for entrusting us with their business, thanks to our associates for their dedication and hard work and thanks to our Board of Directors for their support and guidance. Let's do it again next year!

With their new baby,
Ann needs a bigger home,
and she also
wants a COMPETITIVE
mortgage rate.

CUSTOMER CONTACT CENTRE (RICK):
Thank you for calling
the ATB Financial
Customer Contact Centre.
This is Rick speaking,
how can I help you?

CUSTOMER:
Hi, my name is Ann Smith.
I saw an ad for an
extreme discount mortgage.
Can you tell me more about it?

RICK:
Certainly.
Our extreme discount mortgage
offers a competitive
low rate and gives
you peace of mind that your
payment amount will not
change for five years.
Are you buying a new home
or refinancing?

ANN:
We're buying new.
We just had our third child
and we've definitely
outgrown the old place!

RICK:
Sounds like you have
a lot going on right now!
You know, moving and
a growing family probably
mean that your financial
needs are changing.
Could I suggest you speak
to one of our Personal
Financial Services Officers?
I can connect you with
someone right away if you
have a few minutes to chat.
Would that be all right?

ANN:
Sure! Thank you.

PERSONAL FINANCIAL
SERVICES OFFICER (CHRIS):
Good afternoon,
this is Chris speaking.
How can I help you?

RICK:
Hello Chris, this is Rick
from the Customer Contact Centre.
I have Ann Smith on the line.
She's interested in our
extreme discount mortgage.
The Smiths are buying a new home
because they've just had
their third child
and they've outgrown their home.
I suggested they speak with you
about their financial needs.

CHRIS:
Sounds great!
I'd love to talk to them.

RICK:
Hello Mrs. Smith.
I have Chris
at the Westpoint branch on the line.
Go ahead please.

CHRIS:
Hello, Mrs. Smith.
Welcome to Westpoint Branch.
I'm so pleased to meet you.
Rick has filled
me in on your situation.
I'm sure this is a busy time for you.

ANN:
You're not kidding.
New house, new baby. Lots of changes!

CHRIS:
Well, I'm sure we can make the home
buying part a whole lot easier.
The baby, well, you're on your own there!
Let's take a few minutes
to help me understand your needs...

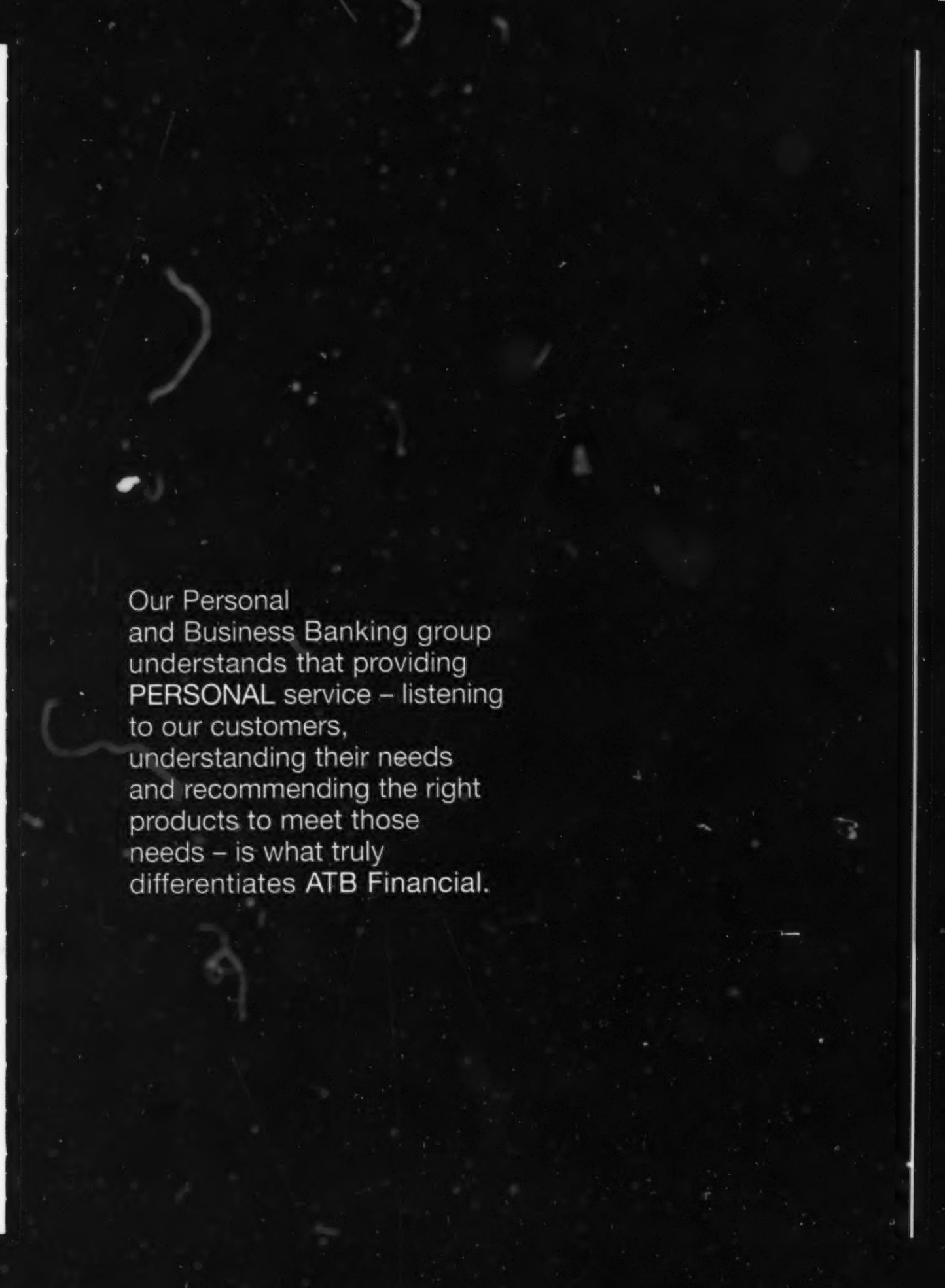
Three months later...

ANN:
You know Chris,
you've been great.
You've really helped us see
the bigger picture.
Your idea of life insurance
on the mortgage
gives us peace of mind
with our new family.
And you saved us money
by getting us into
the right chequing account.
With the money
we're saving, we now
have a Registered
Educational Savings Plan
for little Emily.
When we're settled
in to the new place,
we're going to take you
up on your offer of a session
with one of your
Financial Advisors.

CHRIS:
It's been my pleasure.
I'm happy that we've been
able to help,
and I just want you
to know that we
really do appreciate
your business, and the time
you've taken to allow
us to be of assistance.
It really makes
my day to know
that we've
made a difference.

ANN:
Difference?
I'll say you've
made a difference.

At ATB Financial
we KNOW how to
help people.


Our Personal
and Business Banking group
understands that providing
PERSONAL service – listening
to our customers,
understanding their needs
and recommending the right
products to meet those
needs – is what truly
differentiates ATB Financial.

Personal and Business BANKING

"Money is money...
From bank to bank,
rates, fees, and PRODUCTS
aren't materially different.
It's the quality of service that matters. And personal service is where ATB Financial makes its mark." Gord Mooney, Senior Vice-President Personal and Business Banking.

"The personal service that we provide defines the ATB Financial experience," Gord explains. "Every bank talks about service, but we deliver – which is why, when a customer calls our contact centre, a person assists them with their needs, rather than a voice activated response system."

For Gord, the ATB Financial personal service experience means that every customer is made to feel 'Welcomed, Understood, Helped, Appreciated and Respected' – every time they come in contact with us. It means making that experience personal – whether it takes place in a branch, on the telephone, or across the kitchen table.

While most other financial institutions have consolidated over the past decade, ATB Financial continues to expand to ensure convenient access for our customers. "We've expanded our Customer Contact Centre, added dedicated mortgage specialists in the field, improved our Internet banking, and we continue to grow our team of dedicated small business and agricultural relationship management teams," Gord explains. And the core of a banking relationship remains the branch. We've invested in new branches and relocated others to better service our key markets.

"In fact, we plan to
SIGNIFICANTLY expand the
number of new branches
in our high growth markets
over the next five years."

ATB Financial's agricultural expertise is renowned; in Alberta, one in four farm families is a customer. We have established relationships that have prospered through generations. Part of our success is that we actively recruit and train associates with an interest and background in agriculture. And we don't simply hire people who understand agriculture, we hire people with a passion – something you don't find every day, but you find it at ATB Financial.

We have also been quick to respond to the unique requirements of small business. The most recent Canadian Federation of Independent Business survey rated ATB Financial as the number one financial services provider to small business in Alberta. "That is something we are very proud of," Gord explains. "Our customers like dealing with people who understand this province, its economy, and most of all, its people. They like that fact that decisions are made here, by folks who live and work here, and are here to stay."

ATB Financial's small business and agricultural customers are served by teams of knowledgeable relationship managers and account managers, who provide guidance and advice that ensures all financial needs are met. This might mean partnering with our personal bankers and financial advisors to make sure that ATB Financial understands each customer's comprehensive needs. It also means providing our "Real Cash, Real Profits" seminars to customers across the province, helping them to manage their cash flow and grow.

"To be SUCCESSFUL,
ATB Financial needs
to achieve competitive
financial results."

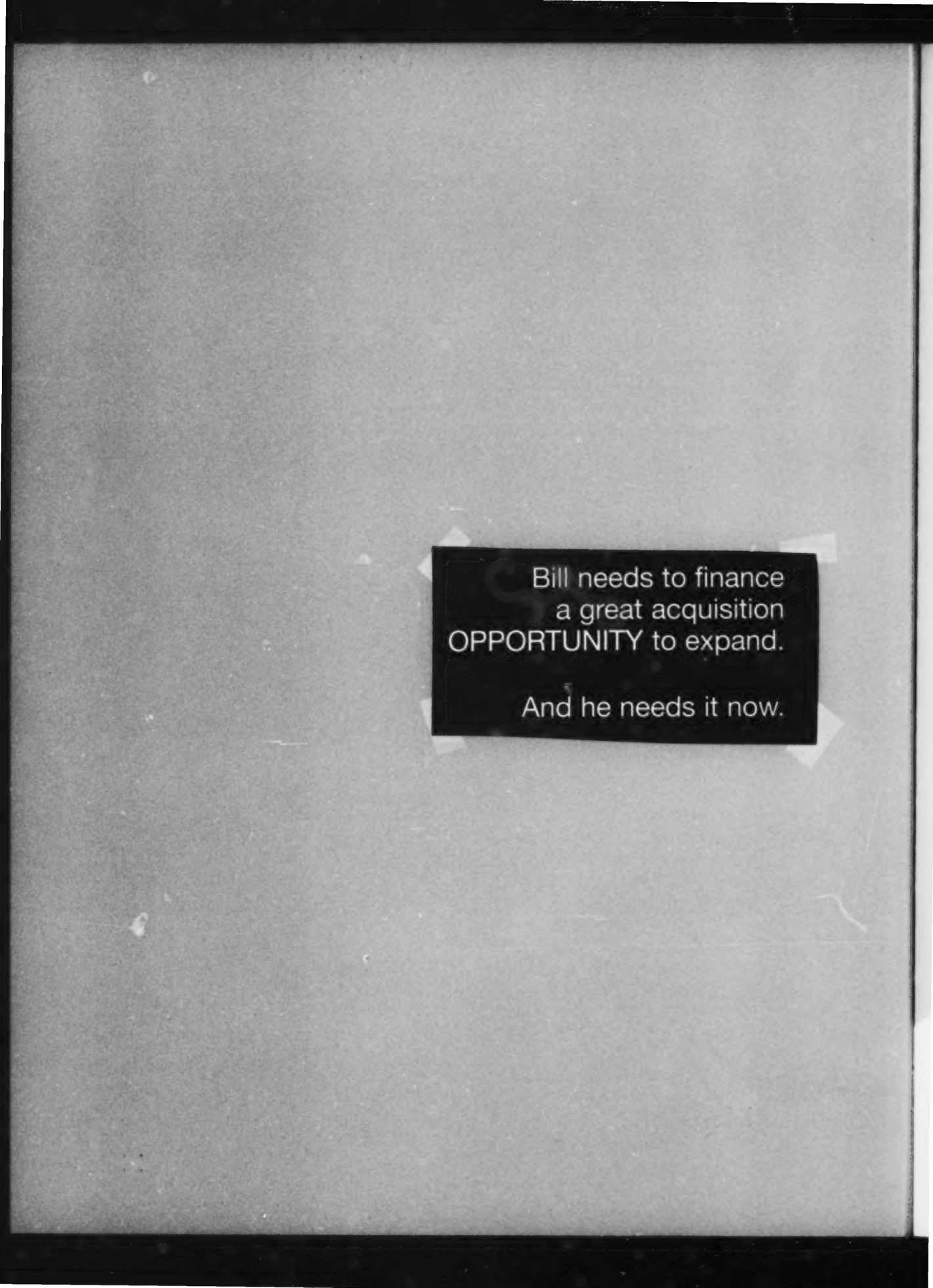
Gord says. "We believe the way to do that is through high performance, engaged associates delivering a personal brand of service excellence to our customers. This is how we earn the right to ask for more business, and for referrals. Engaged associates, satisfied and loyal customers, and financial performance. It's the Triple Win, and it's what drives us every day.

"We are always looking
for ways to help our
associates to provide the
great PERSONAL service
they take pride in.

Sustaining customer service as we grow is a balancing act, part art, part science," Gord explains, adding that training, technology, and process provide most of the science. As for the art, "We work to attract and retain the type of associates who love to provide personal customer service. We select and train people who truly care about the customer, who get out of bed each morning because they want to make a difference. In fact, people who like people gravitate to ATB Financial."

ATB Financial... More people. More branches. More face-to-face.

Gord Mooney


Bill needs to finance
a great acquisition
OPPORTUNITY to expand.
And he needs it now.

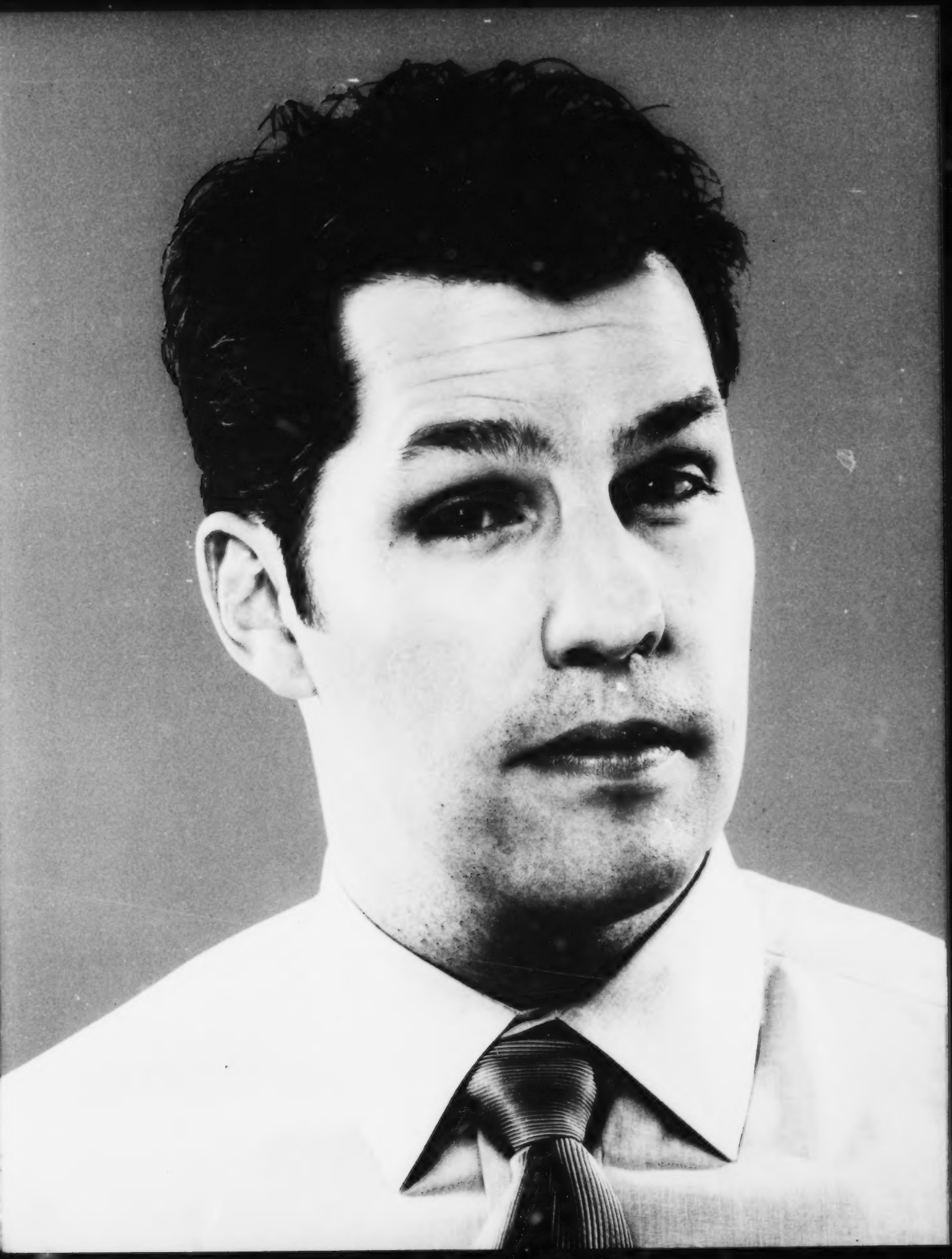
BILL:
This is a great
conference...
I've certainly
learned a lot
about how to expand
my business!
I really didn't
expect to see
ATB Financial here.

RELATIONSHIP
MANAGER (JOHN:)
Actually, this
is a big part
of how we keep
up with market trends.

BILL:
I'm thinking
about expanding
my business,
which is why I am here.

JOHN:
Have you considered
looking at how
ATB Financial
can help you?

BILL:
My financing
needs are substantial
and complex,
and I have to know
what options
are available to me.



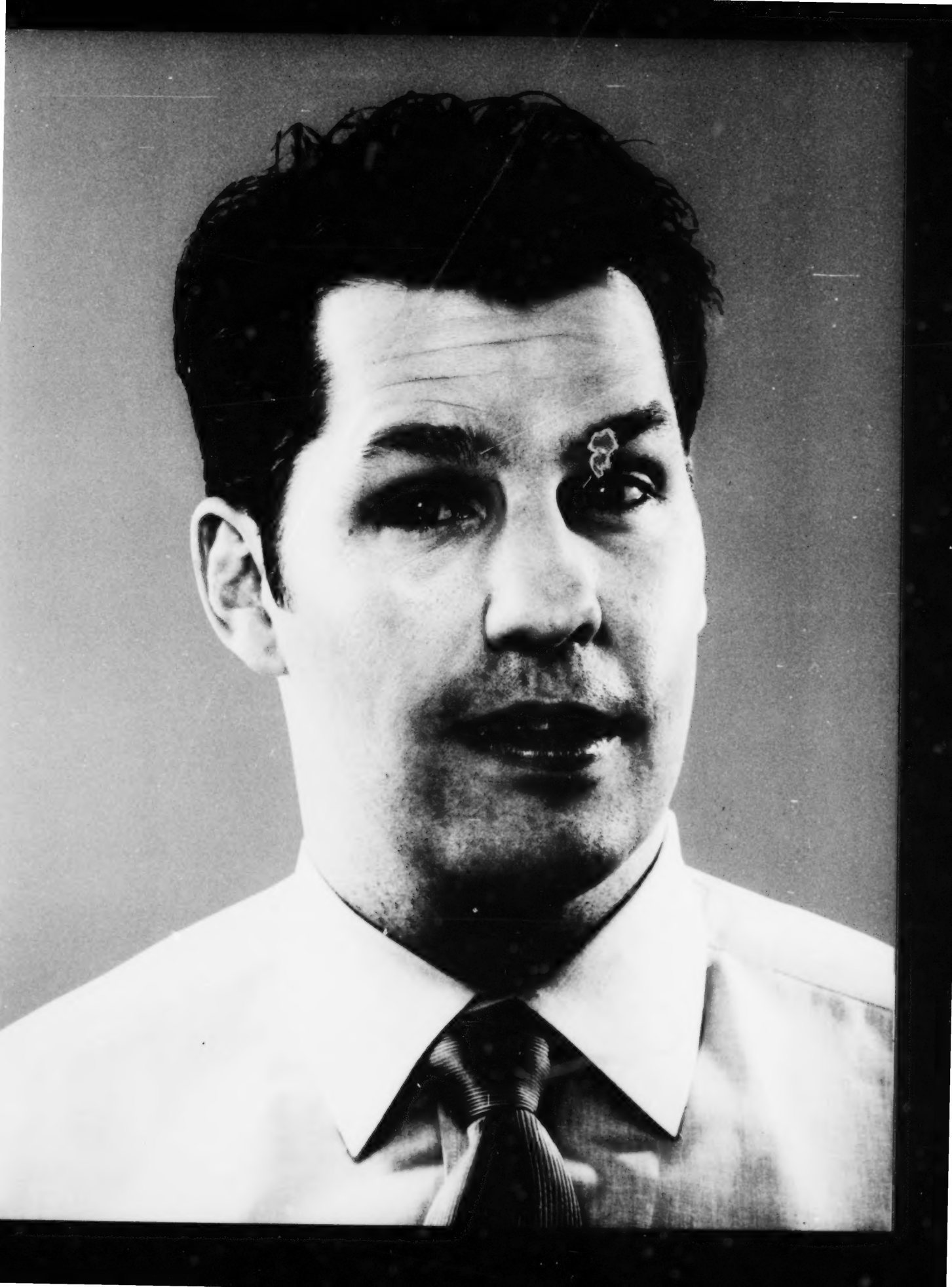
JOHN:
I'll introduce you
to one of our
industry specialists
to look at your
existing needs
and help you develop
a financing proposal
for your expansion.

BILL:
Well, I'll need
someone who understands
my business and the
ups and downs
of the Alberta economy.

JOHN:
Not a problem.
We have been lending
to Albertans in your industry
for years.
We do understand
the ups and downs,
and we make
our decisions here,
in Alberta.
When can we get together?

BILL:
Is there any way
you can come by my office?

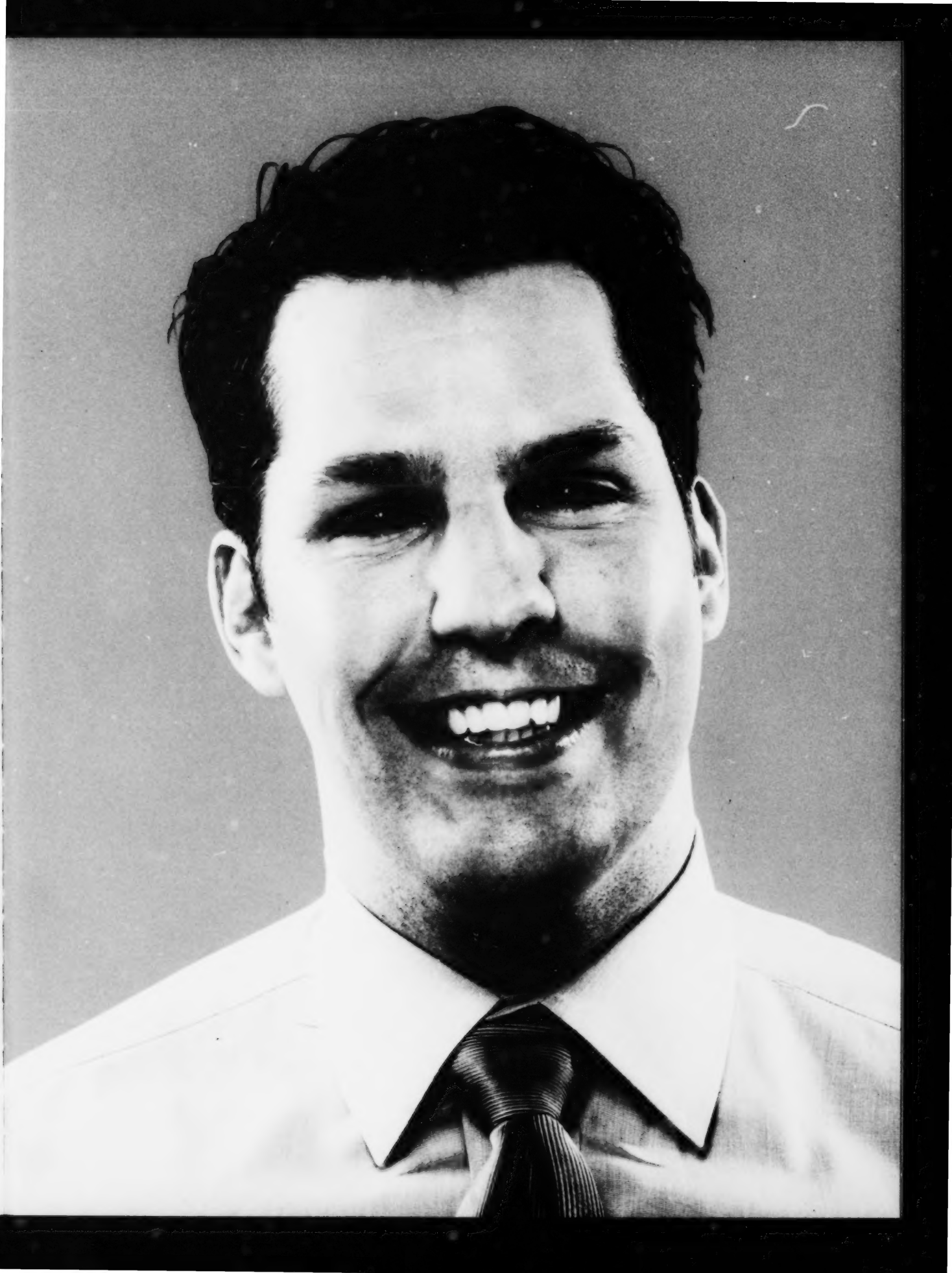
JOHN:
Absolutely.
I know how valuable
your time is
and ATB Financial
strongly believes in
the importance
of personal service.



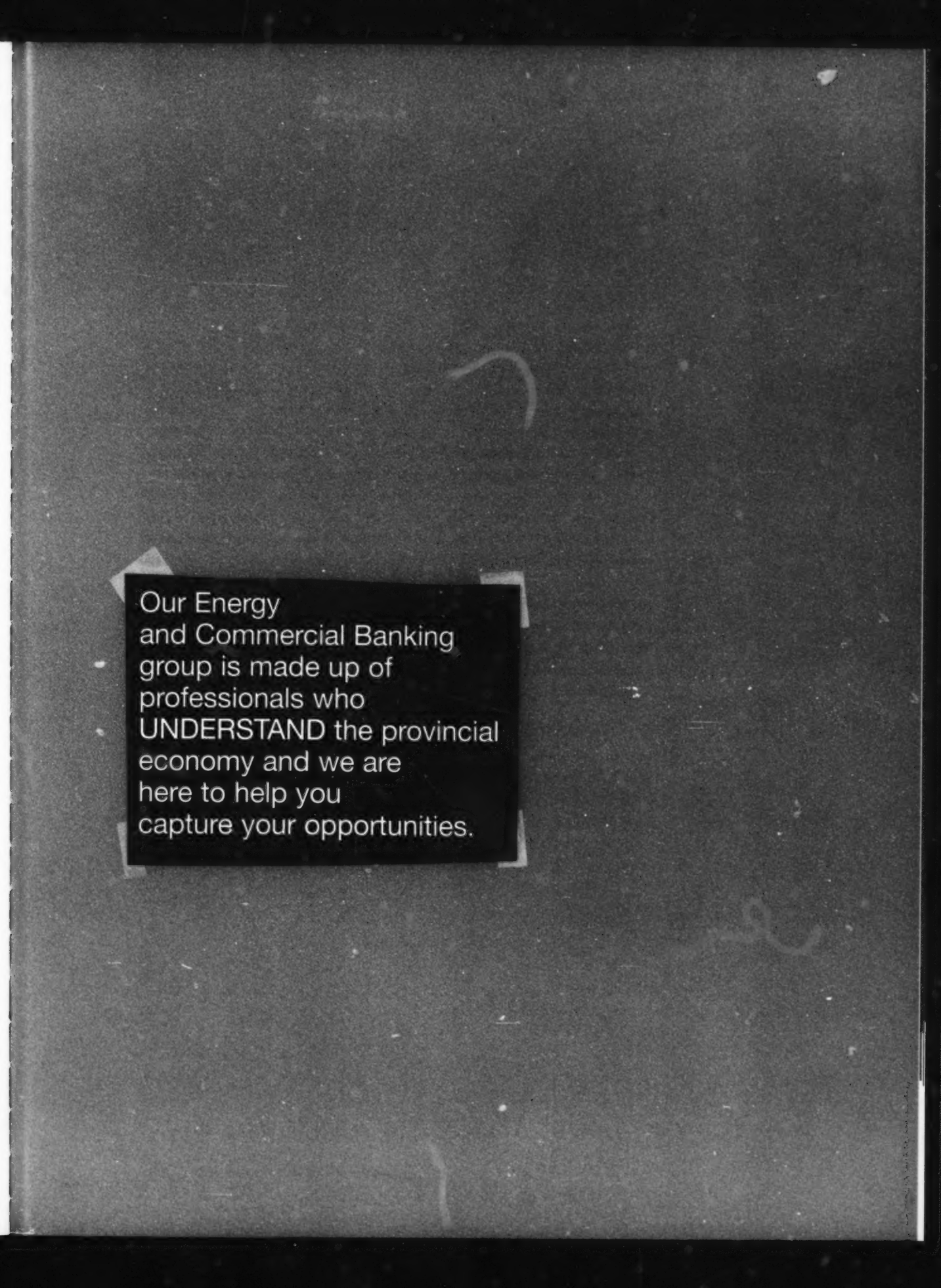
BILL:
Well, not all expansions
go ahead...

JOHN:
We understand that.
ATB Financial
can help you
in a number of ways,
and our first
step is to do an
evaluation
of your expansion.
By knowing
where we stand,
you'll be able
to plan better.
Then, we can also
discuss some of
the other ways
we can help you,
such as our
treasury products,
cash management
and other
financial services.

BILL:
Now, that's what
I call service!
You people
really know
what you're doing.



At ATB Financial
we KNOW how to
help people.


Our Energy
and Commercial Banking
group is made up of
professionals who
UNDERSTAND the provincial
economy and we are
here to help you
capture your opportunities.

Energy and Commercial BANKING

"Fundamentally, all banking is about PERSONAL relationships. People who deal with ATB Financial know the value of the personal service we provide."

Ian Wild, Senior Vice-President, Energy and Commercial Banking. "Through the Energy and Commercial Banking group, we have built those relationships into a bigger forum."

Ian points out the appeal of Energy and Commercial Banking with ATB Financial is that our credit decisions are made locally. "Our professionals value the province's roots in the energy sector and agriculture. And we understand the unique challenges of the economic and commodity price cycles."

ne associates at ATB Financial have a sound understanding of the industries operating within the province. "A good example of this is the drilling industry which is primarily located in Western Canada and has unique capital requirements and operates with cyclical cash flows," Ian explains.

"ATB Financial's mandate is to provide the financial EXPERTISE and capital to stimulate development in Alberta, so, we are strongly motivated to support businesses operating here and to help them succeed."

To do this, we provide our clients with the competitive advantages of accessibility and responsiveness. In today's dynamic economy, a knowledgeable response can make the difference between an opportunity captured, or one lost.

Additionally, by specializing in the energy and commercial sectors, ATB Financial offers added value solutions to our customers by providing professional expertise, personal service, and timely decision-making. "In the commercial group, we do general commercial lending, serving the real estate, hospitality, construction, and manufacturing industries." says Ian.

"Our energy group
SERVES every segment
of the energy industry –
production lending, drilling,
oil and gas services, pipelines and utilities, as well as midstream. We have developed talented specialists in each group who cover the province."

ATB Financial is also the leader in the province in agricultural-based banking. "As our agricultural clients grow into value-added, manufacturing, or industrial processing, we are there to serve them," adds Ian. In fact, already a large proportion of ATB Financial's Energy and Commercial Banking portfolio is agri-industry and further expanding our services and building client relationships in this sector is a natural next step.

"Personal service is our strength.
Knowledge and UNDERSTANDING
builds relationships with our
customers. Growing with them is
what ATB Financial is all about."

Ian Wild

Mary just turned 40,
her son is now 11,
and she is spending
a lot of time THINKING
about the future.

She makes her RRSP
contribution each month,
but wonders if she
should be doing more.

BRANCH MANAGER (KEVIN):
Hi Mary.
Happy Birthday.

MARY:
Wow Kevin,
40 candles on the cake.
Or there would be…
if I weren't afraid
the kitchen would catch fire!
Where does the time go?

You know
this birthday celebration
has me thinking
a lot about retiring.
That is,
if I can even afford
to retire after paying for
Shaun's college years.

KEVIN:
Have you laid
out a good financial plan?
That would probably
help put your
mind at ease and make
sure you are taking
the right steps
to ensure a good education
for Shaun
and a comfortable
future for you.

MARY:
Well, I have a broker
but all we talk about
is the stocks in my portfolio
and lately I haven't
been hearing from him at all.
He's probably afraid
to call given the year
that we've had.

KEVIN:
Mary I'd like
to introduce you to Janice.
She's part of our
ATB Investor Services team.
Janice would be happy
to help you develop
a personal plan based
on your objectives
and give your portfolio
a second look.

MARY:
Well Kevin,
you've never steered
me wrong in nine years,
so, sure
I'm willing to listen to
anyone you recommend.

Later…

FINANCIAL ADVISOR (JANICE:)
Hi Mary.
It's a pleasure to meet you.
I see here
from Kevin's email that you
just had a big celebration.
I celebrated
my 40th last November.

MARY:
It's hard to
believe how fast
the time goes by.
Hey, Janice
your card says
Financial Advisor,
is that like a broker,
or mutual fund
salesperson, or what?

JANICE:
I have access
to a wide range of investment
products Mary,
but my main focus is
to help you develop
your individual plan.
Then, I make sure
your portfolio
supports your goals
for the future.

MARY:
Do you think
I should buy bonds?
I've heard lots
of talk about getting
out of stocks
and into bonds.

JANICE:
Bonds may in fact
be a part of your portfolio,
Mary, but before
I can recommend bonds
or mutual funds,
or stocks or GICs,
I need to know more about you.
Let's talk about
what you would like your
retirement to look like
and what kind of
options you would
like Shaun to have.

MARY:
That makes good sense to me.
Let's set up an appointment.
What do you need from me?

JANICE:
Start by thinking about
your goals.
I have some tools
here to help you.

At ATB Financial
we KNOW how to
help people.

Our new Investor Services group has been developed to help our customers with their long-term plans for retirement in every aspect – from savings plans to investments. More importantly, we customize our services to the needs of an individual customer.

Providing PERSONAL service at all ages and stages is what truly differentiates ATB Financial.

Investor
SERVICES

"Our Investor Services
advisors are experts who HELP
clients create personalized
plans and then turn
their dreams into reality;
we have the knowledge and tools that help our clients do that." Sheldon Dyck, Senior Vice-President, Investor Services.

"Our job in Investor Services begins when someone starts looking to the future, when there's more income, or a focus on spending less. Either way, there's money left over after covering basic necessities," Sheldon explains. "This is the transition from being a spender to a saver. People save to reach a goal, to provide money for a child's education, or to retire at a certain standard of living for example."

To enable clients to reach that goal, ATB's Investor Services team starts by helping define personal objectives and time available. We then determine the required savings level and rate of return that will be necessary to reach the objective. After this, we recommend an investment strategy, then regularly monitor and adjust the plan along the way as needed. It is never too late to start investing and no amount is too little to start with.

With the recent world events testing investor confidence, some might think it's a tough time to be a financial advisor. "Not so," says Sheldon. "People have never needed advice more than they do today and they are frustrated with the lack of personal attention and service traditional investment advisors have provided. For ATB Financial, that frustration translates into an opportunity: an opportunity to provide a best in class, unique wealth management offering to our clients, where we combine our outstanding personal service orientation with a greatly enhanced investment capability."

"At one time, when our
clients became savers
and investors, they used
to turn to other institutions
for investment ADVICE.
Now clients who have trusted us with their core financial services for years are excited about continuing their relationship with ATB Financial, and looking forward to learning more about our Investor Services offering," Sheldon says.

And ATB Financial's new Investor Services team is just as eager to provide those services. According to Sheldon, the Investor Services model enables advisors to provide the kind of service and objective counsel they can be proud of. With a compensation model that is tied to the amount of assets that are managed, they have a direct stake in the success of the portfolio. This allows advisors to focus on what's best for the client, rather than the product that earns them the greatest commission.

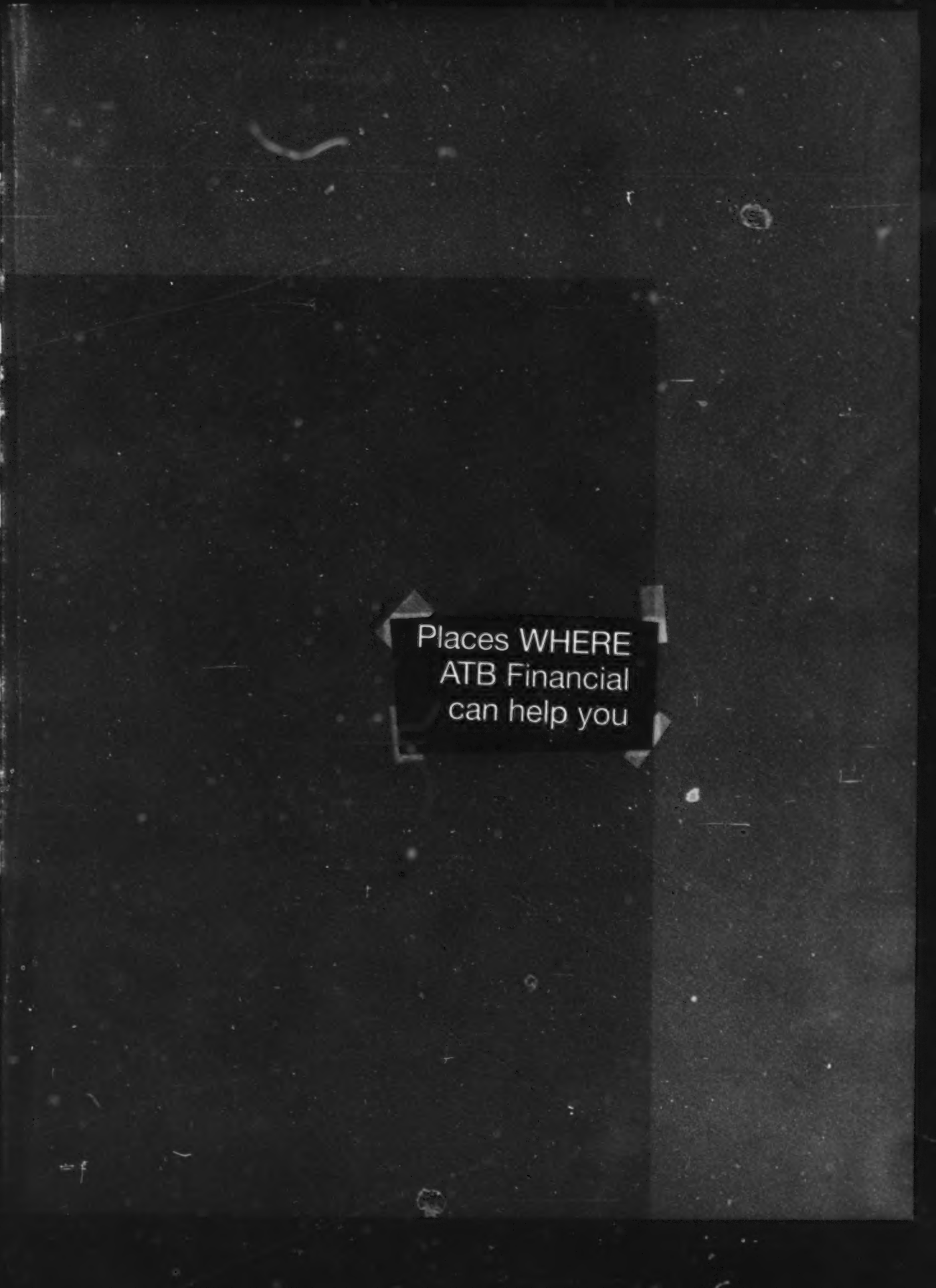
"In fact many of our EXPERIENCED advisors have come to us from our competitors because they want to be able to do the right thing for their clients," Sheldon explains. "With this type of compensation model, our advisors' goals align with the goals of our clients and there is no conflict of interest. In addition to ATB products, we have access to a wide array of investments, and we will recommend what's best for you."

Sheldon reports that ATB Financial's long-term clients have already noticed the difference in the level of service and quality of counsel his team is now offering and ATB Investor Services is growing steadily as a result.

In the year ahead, plans are to continue to increase the investment solutions options and increase the number of dedicated advisors. "The combination of personalized plans, world-class investment portfolios, and industry-leading value is resonating very well with ATB Financial customers. Our clients need to focus their investment strategies to achieve their financial goals and dreams," Sheldon says.

"And we're keen to HELP them do just that."

Sheldon Dyck


Places WHERE
ATB Financial
can help you

ATB Financial Locations

At ATB Financial,
we UNDERSTAND our customers,
and we understand service.

That is why we provide solutions through a variety of delivery options that work to meet the needs and expectations of our customers. Today's customers demand the very best in personal service and want the flexibility to deal with their financial institution when and where it is convenient for them.

Acadia Valley
Airdrie
Alberta Beach
Alder Flats
Alliance
Alix
Amisk
Andrew
Athabasca
Banff
Barons
Barrhead
Bashaw
Bassano
Bawlf
Beaumont
Beaverlodge
Benalto
Berwyn
Big Valley
Black Diamond
Blackie
Blairmore
Blue Ridge
Bon Accord
Bonanza
Bonnyville
Bow Island
Bowden
Boyle
Bragg Creek
Breton
Brooks
Bruce
Bruderheim
Calgary
Calmar
Camrose
Canmore
Carbon
Cardston
Carmangay
Caroline
Carseland
Carstairs
Castor
Cereal
Champion
Chauvin
Chipman
Claresholm
Cleardale
Clive
Coaldale
Cochrane
Cold Lake
Compeer
Consort
Coronation
Coutts
Cremona
Crossfield
Czar
Daysland
Delburne
Devon
Didsbury
Donalda
Drayton Valley
Drumheller
Duchess
Eaglesham
Eckville
Edberg
Edgerton
Edmonton
Edson
Elk Point
Elnora
Enchant
Evansburg
Fairview
Falher
Fawcett
Ferintosh
Foremost
Forestburg
Fort Assiniboine
Fort Chipewyan
Fort Macleod
Fort McMurray
Fort Saskatchewan
Fort Vermilion
Fox Creek
Galahad
Gleichen
Glendon
Glenwood
Grande Cache
Grande Prairie
Granham
Grassland
Grimshaw
Halkirk
Hanna
Hardisty
Hay Lakes
Heisler
High Level
High Prairie
Hines Creek
Hinton
Holden
Hythe
Innisfail
Innisfree
Irma
Irricana
Irvine
Islay
Jasper
Killam
Kinuso
Kitscoty
La Crete
Lac La Biche
Lacombe
Lake Louise
Lamont
Leduc
Lethbridge
Linden
Lloydminster
Lomond
Lougheed
Magrath
Mallaig
Manning
Mannville
Marwayne
Mayerthorpe
McLennan
Medicine Hat
Milk River
Millarville
Millet
Minburn
Mirror
Morrin
Mulhurst
Mundare
Myrnam
Nampa
Nanton
Newbrook
New Norway
New Sarepta
Nobleford
Okotoks
Olds
Onoway
Oyen
Paradise Valley
Peace River
Peers
Picture Butte
Pincher Creek
Plamondon
Ponoka
Provost
Radway
Rainbow Lake
Raymond
Redcliff
Red Deer
Red Earth Creek
Redwater
Rimbey
Rochester
Rocky Mountain House
Rockyford
Rolling Hills
Rosemary
Rycroft
Ryley
Sangudo
Sedgewick
Sexsmith
Sherwood Park
Slave Lake
Smoky Lake
Spirit River
Spruce Grove
St. Albert
St. Paul
Standard
Stavely
Stettler
Stirling
Stony Plain
Strathmore
Strome
Sundre
Swan Hills
Sylvan Lake
Taber
Tangent
Thorhild
Thorsby
Three Hills
Tilley
Tofield
Torrington
Trochu
Two Hills
Valleyview
Vauxhall
Vegreville
Vermilion
Veteran
Viking
Vilna
Vulcan
Wabamun
Wabasca
Wainwright
Wandering River
Wanham
Warburg
Warner
Waskatenau
Wembley
Westerose
Westlock
Wetaskiwin
Whitecourt
Wildwood
Willingdon
Winfield
Worsley
Youngstown

ATB Financial Management's Discussion and Analysis

This report includes forward-looking statements about ATB Financial's objectives, strategies and expected financial results. These statements are subject to inherent risks and uncertainties beyond ATB Financial's control including, but not limited to, regulatory developments within Canada, technological changes, competition, and changes in general economic conditions. General economic conditions include factors such as fluctuations in interest rates, currency values and inflation levels. These and other factors may cause ATB Financial's actual performance to differ perhaps materially, from that contemplated by forward-looking statements. The reader is cautioned not to place undue reliance on these statements accordingly.

ATB Financial Management's Discussion and Analysis

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OVERVIEW

In the year ended March 31, 2003, or fiscal 2003, our net income was $198.9 million, compared to $157.9 million for the year ended March 31, 2002. This represented a 25.97 percent increase in net income over last year. Included in fiscal 2003 net income was a recovery of $45.0 million related to West Edmonton Mall provisions for credit losses previously recorded. Adjusting for the effect of this recovery, net income was down 2.53 percent from last year. This decrease was anticipated due to a lower net interest spread along with expenditures on our growth initiatives, including investor services, energy and commercial banking, and personal and business banking.

Operating revenue was $471.6 million, an increase of $4.8 million or 1.03 percent from last year. Equity increased to $790.9 million, up 33.60 percent from last year. Total assets increased by $847.9 million to $13.2 billion, representing a 6.86 percent increase from 2002. Total loans grew by 12.41 percent to $11.7 billion, while total deposits were $12.1 billion, 5.88 percent higher than last year.

We anticipate that net income for 2004 will remain flat compared to 2003 levels without the West Edmonton Mall recovery. While we are projecting significant loan growth and higher total revenue our loan loss expense is expected to increase and our non-interest expense will remain high as a result of the continued investment in our growth initiatives. In particular, management will continue to focus on growth opportunities in personal and business banking, further developing our Investor Services offering and expanding our energy and commercial banking business.

KEY PERFORMANCE MEASURES

KEY PERFORMANCE MEASURES

(percent)	Target 2004	Actual 2003	Target 2003	Actual 2002	Actual 2001	Industry Average[1]
Net interest spread on average earning assets	3.00	2.92	2.96	3.09	3.35	2.35
Other income to operating revenue	20.94	22.78	21.67	21.68	19.75	47.22
Non-interest expenses to operating revenue	65.34	66.99	67.40	61.65	59.55	68.68
Credit losses to average loans	0.25	(0.39)	0.33	0.21	0.22	1.08
Loan growth	14.33	12.41	7.65	8.86	6.95	2.33
Retail deposit growth	8.60	5.49	5.96	9.85	13.33	n/a

[1] Average of eight major Canadian banks for 2002 fiscal

For 2003 we met or exceeded four of our six key performance measures. This was accomplished despite a continuing sluggish North American economy combined with historically low interest rates, uncertainty around the economic impact of the Kyoto protocol, and drought conditions across many parts of Alberta. While our loan and non-interest expense to operating revenue measures exceeded target, continuing low interest rates put downward pressure on our net interest spread. Credit losses to average loans were better than our target due to improved loan loss performance during the year. Retail deposit growth was slightly below our target, mainly due to lower than expected growth in business deposits.

INCOME STATEMENT

Operating Revenue

Operating revenue consists of net interest income and other income.

OPERATING REVENUE

($ in thousands)	2003	2002	2001	2003 vs 2002 Increase (Decrease)	
Net interest income	$ 364,160	$ 365,583	$ 361,969	$ (1,423)	(0.39)%
Other income	107,442	101,209	89,075	6,233	6.16%
Operating revenue	$ 471,602	$ 466,792	$ 451,044	$ 4,810	1.03%

Operating revenue totaled $471.6 million for fiscal 2003, up from last year's $466.8 million. This growth represented a 1.03 percent increase over last year and compared favourably to 2003 planned growth of 0.06 percent. Other income for 2003 increased $6.2 million to $107.4 million while net interest income decreased marginally by $1.4 million in 2003 to $364.2 million.

OUTLOOK FOR 2004 / We are targeting operating revenue in fiscal 2004 to increase by 12 percent based on an expected increase in interest rates and significant loan growth.

Net Interest Income

Net interest income is the difference between interest earned on assets and interest paid on liabilities.

NET INTEREST INCOME, MARGIN AND SPREAD

	Average balances			Interest			Average rate (%)		
($ in thousands)	2003	2002	2001	2003	2002	2001	2003	2002	2001
Assets									
Deposits with banks and securities	$ 1,512,321	$ 1,892,980	$ 1,431,343	$ 40,150	$ 70,023	$ 83,584	2.65	3.70	5.84
Loans									
Mortgage	4,709,965	4,194,372	3,839,406	269,148	265,139	256,816	5.71	6.32	6.69
Consumer	1,715,317	1,558,091	1,467,356	107,665	110,532	128,743	6.28	7.09	8.77
Other	4,527,101	4,208,706	4,060,559	280,561	293,751	340,683	6.20	6.98	8.39
	10,952,383	9,961,169	9,367,321	657,374	669,422	726,242	6.00	6.72	7.75
Total earning assets	12,464,704	11,854,149	10,798,664	697,524	739,445	809,826	5.60	6.24	7.50
Non-earning assets	327,441	356,317	304,808	–	–	–	–	–	–
Total assets	$ 12,792,145	$ 12,210,466	$ 11,103,472	$ 697,524	$ 739,445	$ 809,826	5.45	6.06	7.29
Liabilities and Equity									
Deposits									
Demand	$ 2,387,757	$ 2,140,900	$ 1,696,980	$ 13,382	$ 17,215	$ 23,645	0.56	0.80	1.39
Notice	1,528,162	1,461,457	1,345,439	9,435	15,591	29,986	0.62	1.07	2.23
Fixed term	7,880,210	7,762,680	7,431,634	308,079	339,437	393,328	3.91	4.37	5.29
Total deposits	11,796,129	11,365,037	10,474,053	330,896	372,243	446,959	2.81	3.28	4.27
Non-interest bearing liabilities	254,199	288,246	251,303	–	–	–	–	–	–
Subordinated debentures	41,660	27,006	14,969	2,468	1,619	898	5.92	5.99	6.00
Equity	700,157	530,177	363,147	–	–	–	–	–	–
Total liabilities and equity	$ 12,792,145	$ 12,210,466	$ 11,103,472	$ 333,364	$ 373,862	$ 447,857	2.60	3.06	4.03
Net interest margin	–	–	–	$ 364,160	$ 365,583	$ 361,969	2.85	3.00	3.26
Net interest spread	–	–	–	–	–	–	2.92	3.09	3.35

Net interest income was $364.2 million for fiscal 2003, a decrease of $1.4 million or 0.39 percent over last year's $365.6 million. This modest decrease was due to growth in average earning assets (loans to customers, deposits with banks, and securities) being more than offset by continued low interest rate margins. The table below shows the change in net interest income due to volume and interest rate changes.

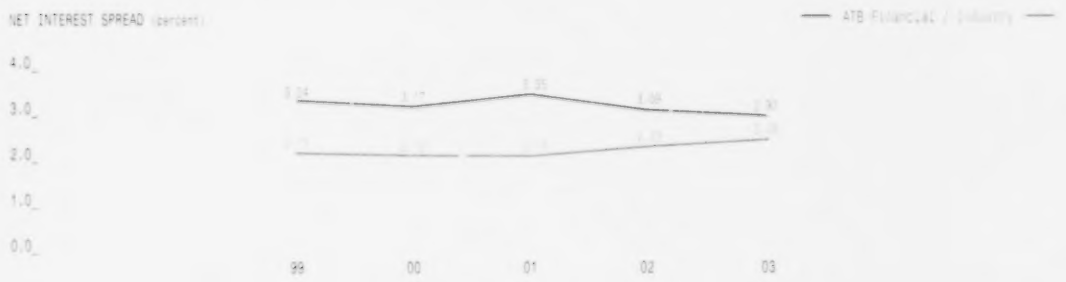
CHANGE IN NET INTEREST INCOME

	2003 vs 2002 Increase (Decrease) due to changes in			2002 vs 2001 Increase (Decrease) due to changes in		
($ in thousands)	Volume	Rate	Net change	Volume	Rate	Net change
Assets						
Deposits with banks and securities	$ (14,081)	$ (15,792)	$ (29,873)	$ 26,958	$ (40,519)	$ (13,561)
Loans						
Mortgage	32,592	(28,583)	4,009	23,744	(15,421)	8,323
Consumer	11,154	(14,021)	(2,867)	7,961	(26,172)	(18,211)
Other	22,223	(35,413)	(13,190)	12,430	(59,362)	(46,932)
Total loans	65,969	(78,017)	(12,048)	44,135	(100,955)	(56,820)
Change in interest income	$ 51,888	$ (93,809)	$ (41,921)	$ 71,093	$ (141,474)	$ (70,381)
Liabilities and Equity						
Deposits						
Demand	$ (1,985)	$ 5,818	$ 3,833	$ (6,185)	$ 12,615	$ 6,430
Notice	(712)	6,868	6,156	(2,586)	16,981	14,395
Fixed term	(5,139)	36,497	31,358	(17,521)	71,412	53,891
Total deposits	(7,836)	49,183	41,347	(26,292)	101,008	74,716
Subordinated debentures	(879)	30	(849)	(722)	1	(721)
Change in interest expense	$ (8,715)	$ 49,213	$ 40,498	$ (27,014)	$ 101,009	$ 73,995
Change in net interest income	$ 43,173	$ (44,596)	$ (1,423)	$ 44,079	$ (40,465)	$ 3,614

Net interest margin is the ratio of net interest income to average total assets. Net interest margin decreased from 3.00 percent to 2.85 percent. This compares favourably to the Canadian banking industry average of 2.00 percent. The main reason we continually exceed the industry average is that we maintain a strong retail deposit base and have a smaller share of the corporate market, which tends to yield lower spreads.

One of the key performance measures we use to evaluate our financial performance is net interest spread. Net interest spread is the ratio of net interest income to average earning assets. We believe that net interest spread provides a more meaningful measure of our performance than net interest margin because it excludes non-earning assets, such as impaired loans and fixed assets, and focuses on our portfolio's effective performance.

Our net interest spread for fiscal 2003 was 2.92 percent compared to the 2003 target of 2.96 percent and a fiscal 2002 level of 3.09 percent. We did not achieve our target as interest rates remained at or near 40 year lows throughout fiscal 2003, which continued to place pressure on our spread.



OUTLOOK FOR 2004 / We are targeting a net interest spread of 3.00 percent for 2004 based on our expectation of a moderate increase in interest rates.

Other Income

Other income consists of all revenue not classified as net interest income.

OTHER INCOME

($ in thousands)	2003	2002	2001	2003 vs 2002 Increase (Decrease)	
Service charges	$ 49,699	$ 45,751	$ 44,229	$ 3,948	8.63%
Credit fees	26,520	25,581	17,238	939	3.67%
Commission and other	12,017	12,045	11,937	(28)	(0.23)%
Card fees	13,892	12,679	10,182	1,213	9.57%
Foreign exchange	5,314	5,153	5,489	161	3.12%
	$ 107,442	$ 101,209	$ 89,075	$ 6,233	6.16%

Other income was $107.4 million for fiscal 2003, an increase of 6.16 percent compared to last year's $101.2 million. This increase is primarily attributable to growth in service charges. Service charges increased due to mid-year rate increases and higher transaction volumes. Card fees also continued to grow as a result of an increased number of card products in circulation.

This year's ratio of other income to operating revenue of 22.78 percent exceeded last year's ratio of 21.68 percent and our 2003 target ratio of 21.67 percent. Our ratio of other income to operating income continues to be significantly less than that of all the major Canadian banks as we do not generate revenue from trading, investment banking or brokerage activities.

OUTLOOK FOR 2004 / We are targeting an other income to operating revenue ratio of 20.94 percent for 2004 based on strong loan growth contributing to an increase in net interest income.

Provision for Credit Losses

We recorded a recovery of $43.2 million for fiscal 2003 compared to a provision of $21.1 million for fiscal 2002. Included in the 2003 recovery is $45.0 million related to the West Edmonton Mall settlement. The ratio of the annual charge for credit losses to average total loans was a negative 0.39 percent comparing favourably to our 2003 target ratio of 0.33 percent and last year's ratio of 0.21 percent. Our lower than expected provision for credit losses was directly attributable to a combination of lower newly established provisions and recoveries of both specific and general provisions. The provision for credit losses is further discussed on page 40 in the credit risk section.

OUTLOOK FOR 2004 / We are targeting a credit loss to average total loan ratio of 0.25 percent for 2004 based on the quality of our portfolio and our risk management processes.

Non-interest Expenses and Productivity

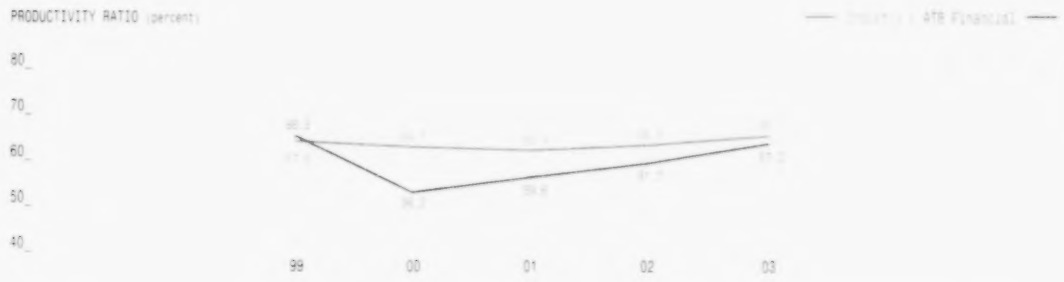
Non-interest expenses consist of all ATB Financial expenses except interest expense and provision for credit losses.

NON-INTEREST EXPENSES AND PRODUCTIVITY

($ in thousands)	2003	2002	2001	2003 vs 2002 Increase	
Human resources	$ 161,491	$ 147,766	$ 136,018	$ 13,725	9.29%
Occupancy	33,028	30,861	29,949	2,167	7.02%
Equipment and software	13,894	12,043	12,365	1,851	15.37%
Communication	11,854	11,310	10,799	544	4.81%
Information technology	44,031	41,249	38,896	2,782	6.74%
Agencies	5,725	5,277	4,713	448	8.49%
Marketing and supplies	12,346	9,780	10,508	2,566	26.24%
Deposit guarantee fee	15,985	15,234	12,739	751	4.93%
Other	17,555	14,251	12,619	3,304	23.18%
Total non-interest expenses	$ 315,909	$ 287,771	$ 268,606	$ 28,138	9.78%
Productivity ratio	66.99%	61.65%	59.55%		

Non-interest expenses were $315.9 million for fiscal 2003, an increase of 9.78 percent compared to last year's $287.8 million. Human resource expenses increased by $13.7 million or 9.29 percent due to increases in compensation levels, adding expert resources to assist in building our new initiatives, and extensive training provided to existing staff. The equipment and software category increased by $1.9 million or 15.37 percent due to amortization expense related to the prior years' automation investments. Marketing expenses are higher by $2.6 million or 26.24 percent mainly due to investment in media advertising to increase consumer awareness of ATB Financial products and services. In addition, we also increased our commitment to community sponsorships and corporate donations. A $3.3 million or 23.18 percent increase in the other expense category relates to building our new lines of business, and includes costs such as travel, consulting, legal costs, or professional fees and memberships.

The deposit guarantee fee paid to the Province of Alberta increased by $0.75 million. The deposit guarantee fee is payable annually to the province to compensate for the unlimited principal and interest guarantee provided to our depositors. The fee is assessed on total deposits outstanding at March 31. Commencing in 2003, the fee on deposits that would be eligible for insurance under the Canada Deposit Insurance Corporation (CDIC) was reduced to rates comparable with CDIC's risk-based premium methodology. All other deposits continue to be subject to a fee equal to 1/6 of 1.00 percent.



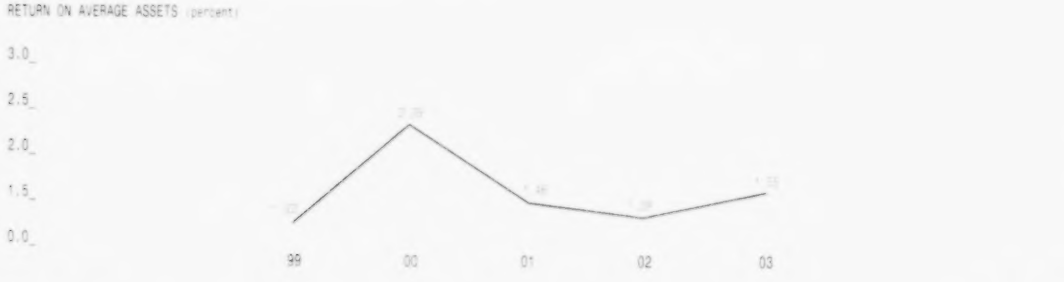
The productivity ratio is the ratio of non-interest expenses to operating revenue. We use this ratio as a key performance measure of our corporate efficiency. The lower the ratio the better the efficiency. Our productivity ratio was 66.99 percent for fiscal 2003 compared with a target ratio of 67.40 percent and last year's ratio of 61.65 percent. This increase in the ratio was due to the planned reorganization and retooling to support our three major growth initiatives.

OUTLOOK FOR 2004 / We are targeting an improvement in our productivity ratio to 65.34 percent in 2004 even though we will continue to invest in our growth initiatives, as we expect revenue to grow at a higher rate than expenses.

BALANCE SHEET

Assets

Total assets were $13.2 billion as at March 31, 2003, an increase of $847.9 million or 6.86 percent over last year. The increase in total assets was due to a substantial increase in net loans ($1.3 billion), particularly in residential mortgages, and business and other loans. Interest bearing deposits with banks and securities decreased from last year by $172.7 million and $228.9 million respectively.



Return on average assets for the year ended March 31, 2003 was 1.55 percent. This return significantly exceeded the planned return of 0.92 percent. The increase was attributable to significant recoveries of credit loss provisions.

OUTLOOK FOR 2004 / We are targeting a return on average assets of 1.06 percent in 2004 based on an anticipated improvement in net interest income and continued low credit losses compared to industry.

Loans

Loans, net of allowances for credit losses increased by $ 1.3 billion from the previous year to $11.7 billion as at March 31, 2003. This overall increase in net loans represented 12.41 percent growth over last year significantly exceeding our 2003 target growth rate of 7.65 percent. This growth was due to a healthy Alberta economy that provided opportunities in commercial banking and residential mortgages. Our loan portfolio is further discussed on page 38 of the credit risk section.

OUTLOOK FOR 2004 / We are targeting overall loan growth of over 14 percent in 2004 based on increasing our business in large urban areas and a further focus on commercial loans.

Liabilities

Deposits

DEPOSITS BY CATEGORY

	2003					
($ in thousands)	Payable on demand	Payable after notice	Payable on a fixed date	Total	2002	2001
Personal	$ 765,101	$ 1,218,245	$ 5,525,213	$ 7,508,559	$ 6,978,556	$ 6,307,770
Business and other	1,631,829	288,988	2,667,535	4,588,352	4,446,654	4,611,093
	$ 2,396,930	$ 1,507,233	$ 8,192,748	$12,096,911	$11,425,210	$10,918,863
Retail	$ 2,396,930	$ 1,507,233	$ 7,339,600	$11,243,763	$10,658,465	$ 9,701,602
Wholesale	–	–	853,148	853,148	766,745	1,217,261
	$ 2,396,930	$ 1,507,233	$ 8,192,748	$12,096,911	$11,425,210	$10,918,863

Our deposit business includes a wide range of deposit and investment products. During the year, total deposits increased by $671.7 million to $12.1 billion as at March 31, 2003. This represented year over year growth of 5.88 percent. Retail deposits grew by $585.3 million to $11.2 billion, or 5.49 percent. Our retail deposit growth rate was slightly below our 2003 target deposit growth rate of 5.96 percent.

Despite historically low interest rates we have achieved a strong growth in personal deposits, due to our innovative product offering. Growth in business deposits was less than expected due to the highly competitive environment and low interest rates. Personal deposits increased by $530.0 million or 7.59 percent over 2002, while business and other deposits increased by $141.7 million or 3.19 percent.

While the retail deposits as at March 31, 2003 were below target, we were able to maintain required liquidity levels without significantly increasing wholesale deposit financing. This was mainly due to our equity growth. Liquid assets (consisting of cash resources and securities) are 9.46 percent of total assets at March 31, 2003.

OUTLOOK FOR 2004 / We are targeting a deposit growth rate of over eight percent for 2004 based on an increased presence in all regions and enhanced ATB Investor Services activities.

Off Balance Sheet Credit-Related Arrangements

In the normal course of business, we enter into various commitments to provide customers with sources of credit. These include credit commitments, letters of credit, letters of guarantee and loan guarantees. The table below summarizes our credit-related arrangements. For a detailed description of these arrangements, see Note 16 to the financial statements.

OFF BALANCE SHEET CREDIT-RELATED ARRANGEMENTS

($ in thousands)	2003	2002	2001
Guarantees	$ 91,710	$ 440,744	$ 410,579
Letters of credit	9,501	3,026	4,904
Commitments to extend credit	2,764,923	2,245,554	2,098,536
	$ 2,866,134	$ 2,689,324	$ 2,514,019

CRITICAL ACCOUNTING POLICIES

A summary of significant accounting policies is presented in Note 2 to the financial statements. The policies discussed below are considered particularly important, as they require management to make significant judgements, some of which may relate to matters that, by their very nature, are uncertain.

Allowance for credit losses

The allowance for credit losses adjusts the value of loan assets to reflect existing credit losses. In assessing existing credit losses, we must rely on estimates and exercise judgement regarding matters for which the ultimate outcome is unknown. These include economic factors, developments affecting companies in particular industries and specific issues with respect to single borrowers. Changes in circumstances may cause future assessments of credit risk to be materially different than current assessments and may require an increase or decrease in the allowance for credit losses. Further information on the process and methodology for determining the allowance for credit losses is contained in the discussion on credit risk on page 41 as well as in Note 7 to the financial statements.

Pension benefits

Pension expense is calculated by our actuaries based on assumptions determined by management. These assumptions include the long-term rate of return on pension assets, the rate of future compensation increases, discount rates for pension obligations and the inflation rate. If actual experience differs from the assumptions made by management, our pension expense could increase or decrease in future years. Further information regarding our accounting for pension benefits is contained in Note 13 to the financial statements.

We are a provincial Crown Corporation and we operate under the authority of the Alberta Treasury Branches Act Chapter A-37.9, 1997 and Treasury Branches Regulation 187/97, as amended. While not subject to the federal Bank Act or guidelines issued by the Office of the Superintendent of Financial Institutions (OSFI) and standards of the CDIC, we have investment, liquidity and risk management standards comparable to other financial institutions.

The Treasury Branches Regulation (the Regulation) provides specific regulatory requirements in the area of asset maintenance, liquidity, hedging, and lending and investment policies. In July 2002, the Regulation was amended and sections 23.1(1) and 23.1(2) were added. These sections provide the method by which the shareholder will receive assurances that ATB Financial is operating in compliance with guidelines to be set by our Board of Directors. Under section 23.1(1) of the Regulation, the Board "shall establish guidelines satisfactory to the Minister". These guidelines will either complement existing regulations or replace former specific regulations. Section 23.1(2) of the Regulation requires management to issue an audited annual certificate of compliance with the guidelines. These changes will help the Board ensure that ATB Financial is complying with guidelines applicable to other Canadian financial institutions.

Subsequent to passage of the amendments to the Regulation, Bill 12, The Financial Sector Statutes Amendment Act, 2003 was introduced into the Legislative Assembly. Amendments to the regulation-making authority will permit the Minister to make or approve guidelines, including compliance with the guidelines and specifying the effect and contravention of these guidelines. We will be working with the Ministry of Finance during fiscal 2004 to develop these guidelines, which will be similar to those followed by other Canadian financial institutions.

Investment, lending, liquidity, and hedging policies are described in the Risk Management section of this Management Discussion and Analysis.

Our equity levels have significantly improved over the past five years, and as at March 31, 2003, our regulatory capital exceeded 8.00 percent of risk weighted assets. Our regulatory capital consists of retained earnings, eligible subordinated debt and a percentage of our general loan allowance[2].

The following table outlines our regulatory capital and asset to capital multiples:

REGULATORY CAPITAL AND CAPITAL RATIOS

($ in thousands)	2003
Tier 1 capital	
Equity	$ 790,937
	790,937
Tier 2 capital	
Eligible subordinated debentures	$ 25,304
General allowance for credit losses	59,228
	84,532
Total regulatory capital	$ 875,469
Total risk-weighted assets	$ 9,476,400
Tier 1 capital ratio	8.35%
Total capital ratio	9.24%
Asset to capital multiple	10.82

For the purpose of comparing our capital adequacy structure with other financial institutions, our Tier 1 capital was 8.35 percent of risk weighted assets as at March 31, 2003 and total capital was 9.24 percent of risk weighted assets at year-end. OSFI's minimum Tier 1 capital requirement is 7.00 percent and total capital requirement is 10.00 percent[1]. Our asset to capital multiple was 10.82 times, which is below OSFI's maximum level of 20 times.

[1] Our capital requirement is set out in the Regulation. It includes $750 million in "notional capital" put in place when we had an accumulated capital deficit. For calculation of the 8.00 percent, this notional capital has been excluded.

[2] OSFI permits general loan loss allowance up to a maximum of 87.5 basis points of risk weighted assets included in Tier 2 capital compared to 62.5 basis points allowed by ATB Regulation.

OVERVIEW

Prior to fiscal 2003, we conducted our business through three principal business segments: individual; agricultural; and independent business and commercial. In the past, our financial statements have included segmented information for these areas. Fiscal 2003 segmented information for these segments can be found in Note 21 to the financial statements.

Continuing on the initiatives introduced in the fiscal 2002 business plan, fiscal 2003 focused on three primary business segments: personal and business banking, energy and commercial banking, and investor services. Starting in fiscal 2004 we will report segment information for each of these segments.

PERSONAL AND BUSINESS BANKING

The Personal and Business Banking group is responsible for serving our individual, independent business, and agricultural customers through our network of branches, agencies, direct sales force, and electronic channels. We will continue to build on our existing tradition of providing personal service.

For fiscal 2003 our planned initiatives encompassed activities such as:

- integrating and aligning our delivery channels with support functions to deliver "personal service" to our customers;
- clearly defining and streamlining sales and service processes to free our associates to spend more time with customers; and
- continuing to improve access by adding three to five new branches per year in the major cities, and by renovating or relocating branches in rural areas to better serve our customers and to help solidify our market position.

In fiscal 2003 we developed a new branch model that redefined branch roles and initiated pilot projects for this model in two major urban branches. We made substantial progress in defining and streamlining our operational processes that will lead to our associates being able to spend more time with our customers. We added a new branch and relocated two branches in each of Calgary and Edmonton as part of our network improvement initiative.

For fiscal 2004, we will focus on improving the efficiency and sales effectiveness of our retail banking operations, while increasing market share and revenue growth in key market areas. To do this we will strengthen our branches as centres of expertise; invest in technologies required for a new transaction and service platform; improve the effectiveness of our credit processes; and increase the capacity of our lenders. Our distribution network will be enhanced by the addition of new branches in high growth areas. We plan to add two new branches in Calgary, two in Edmonton and one in St. Albert.

ENERGY AND COMMERCIAL BANKING

The Energy and Commercial Banking group is responsible for serving our medium to large size borrowers. The Energy group develops relationships with oil and gas producers, utilities, pipelines and oil and gas servicing companies. The Commercial group is responsible for all non-energy related industries, including such industries as manufacturing, construction, hotels, real estate and agri-business.

The borrowing needs of our energy and commercial customers are generally larger and more complex in nature. We also participate with a group of other banks to provide funding, referred to as syndicated lending. The Energy and Commercial Banking group has a diversified portfolio of both sole and syndicated loans.

For fiscal 2003 the following initiatives were planned:

- build a strong, dedicated management team and specialized lending;
- build alliances and partnerships to provide a full range of product and service offerings; and
- develop expertise in loan syndication and in the energy industry, to structure solutions for those markets.

In fiscal 2003, initiatives undertaken included: hiring additional resources from both internal and external sources to complement our relationship management teams; ongoing market surveys of our focus areas to determine our opportunities within each sector; forming a syndicated loan administration group which centralizes the administration function for all syndicated loans in which we participate or where we are the lead lender; and participating in syndicated loans to companies with operations in Alberta but which are not headquartered in Alberta. These loans provide additional avenues for growth and also provide diversification from our traditional Alberta-based customers.

For fiscal 2004 we will change the Energy and Commercial Banking group from a regional focus to one of industry specialization. This will enable us to improve staff use, credit quality and sales levels. We will launch a proactive marketing program for all key industry sectors designed to increase our market share. And, we plan to increase our other income by developing and implementing new products and tools in areas such as cash management, treasury product lines and customer relationship management.

ATB INVESTOR SERVICES

ATB Investor Services is responsible for helping our customers to manage their financial affairs through collaboration, goal setting, research, financial advice, portfolio construction, and providing solutions within acceptable risk tolerances, through our network of branch representatives, investment specialists, and financial advisors.

Our planned initiatives for fiscal 2003 included:

- building a strong, dedicated management and sales team focused on helping clients achieve their financial goals;
- providing a suite of competitive products and integrating that offering into our traditional product line; and
- delivering solutions to our customers with the right tools and technology to grow with our customers.

In fiscal 2003 we recruited 35 advisors, 14 additional investment managers and seven operations and compliance staff. In addition, we trained 240 branch representatives and implemented new compliance and sales models. We launched a new platform allowing our customers access to third party mutual funds and securities and we developed strategic relationships with a number of mutual funds companies. Finally, we developed appropriate tools for our staff to support interactions with our customers.

For fiscal 2004 we plan to further expand our consultative network by recruiting 40 to 50 additional experienced advisors and increasing our investment solution options by adding to our suite of products. We will also evaluate the possibility of bringing in specialty products and individual ATB Financial mutual funds. By the end of fiscal 2004 we expect to have up to $800 million in assets under management.

OVERVIEW

Risk is an inherent part of our business and activities. We strategically manage risk with the objective of creating and protecting shareholder value. We have made a strong commitment to actively manage risks that could affect our strategic or financial objectives.

Within our framework for managing risk, we are governed by four guiding principles. These principles are essential to our decision-making process. The principles are:

Governance
- board awareness of risks and related strategies
- executive management accountability for risks in their respective areas
- enterprise risk management independent from the business units

Decision Making
- business plan integration of risks and required mitigation strategies
- cost/benefit analysis for consideration of alternate risk strategies and/or risk acceptance

Infrastructure
- capital charge for risk exposures
- self-assessment performed by executive management in each business unit
- formalized policies and governance – documented policies, procedures, and guidelines

Culture
- risk goals integrated into the business plan objectives
- risk reporting – sharing and reporting of risk exposures, weaknesses, and events

Our ability to properly and effectively identify, assess, monitor and manage risk in business activities is critical to ensure safe and sound operations and profitability. Our business activities generate credit risk, market risk, liquidity risk, and operational risk.

We use an integrated approach in managing risk through enterprise risk management. Enterprise risk management provides proactive identification and assessment of integrated risks for proper control and mitigation. It also allows management to make and evaluate decisions on a well-informed risk adjusted basis. Enterprise risk management helps to determine and assign accountability for each key risk initiative. As well, enterprise risk management increases risk awareness in all areas by assisting in defining measures of risk and budgeting for compliance. Enterprise risk is managed under the leadership of the Executive Vice-President Credit.

Systems of control are in place to provide management with timely and accurate operational information that provides proper transaction authorization and execution, safeguards assets from misuse or theft, and ensures the reliability of financial and other data. Procedures have been implemented to ensure reporting and policies related to conduct, ethics and business practices are followed on a uniform basis and as per regulatory requirements.

Management of each line of business manages and reports to the committees of the Board structured to oversee the risk management processes for their respective areas. The Enterprise Risk Management Committee reports on high-level integrated enterprise-wide risks and corporate governance to the Governance and Conduct Review Committee of the Board. Audit provides an independent assessment and reporting of risks and risk management to the Audit Committee of the Board. Details of our various committees and their role in the risk management process are outlined below.

BOARD OF DIRECTORS COMMITTEES

Audit Committee

Reviews budgets and monitors progress against plans, reviews financial results and other key measures of performance. Also reviews the control environment, approves the internal audit plan and reviews internal audit results.

Governance and Conduct Review Committee

The Governance and Conduct Review Committee is responsible for overseeing, monitoring, and recommending established policies that implement and maintain corporate governance, conflict of interest for directors and officers, ethical and legal conduct of employees, and management's enterprise risk management process.

Credit Policy and Risk Management Committee

Reviews and approves credit and other risk management policies, monitors compliance to policies and reviews and approves high value credit proposals. It also reviews trends in the organization's risk profile.

Human Resource Committee

Provides guidance, oversight and review of the strategies and policies relating to staff complement, recruitment, training and development, disciplinary action, compensation, senior officer appointments, collective bargaining and administration review and sign off of the ATB pension plan.

MANAGEMENT COMMITTEES

Enterprise Risk Management Committee

Defines and articulates the overall risk tolerance of the organization. It oversees the risk management process and ensures implementation of the corporate risk strategy. It approves risk policies and limits and reviews the risk elements in the development of new products or services.

Asset/Liability Committee (ALCO)

Responsible for the organization's asset/liability management and ensures operations are within the risk management policies for liquidity, interest rate asset/liability, short and long term investments, deposit limits and derivatives.

Credit Committee

Responsible for the administration, monitoring and adjudication of all lending programs and initiatives.

Joint Management Committee

Oversees, directs and manages operations in line with the annual business plan.

Retirement Committee

Oversees the prudent and effective operation of the ATB Management Pension Plan.

CREDIT RISK

Credit risk is the potential for financial loss resulting from the failure of a borrower or counterparty to honour their financial or contractual obligation, such as repayment of loans, letters of credit or settlement of derivative contracts.

Credit Risk Management Process

ATB Financial has comprehensive credit risk management policies that are in line with those followed by Canadian chartered banks. These policies are reviewed regularly, and are consistent with both the sound business practices set out by the Canada Deposit Insurance Corporation, as well as guidelines issued by the Office of the Superintendent of Financial Institutions. All policies on credit risk management issues require the approval of the Board of Directors.

Credit risk management standards are identified and communicated by way of written policies and directives, and are implemented through operational procedures and are supported by training.

A thorough assessment of each credit proposal is made prior to its initial approval and reviewed at least annually thereafter to assess the appropriateness of the credit risk associated with it. All credit proposals are initiated by front-line lenders and are subject to adjudication and/or review by a separate and independent group of credit managers. Credits which are considered problematic due to payment arrears or other forms of credit impairment, are administered by a separate asset management group who focus solely on credit workouts and asset liquidations.

Internal and external audit reviews of individual loans and verification of compliance with established policies are conducted on an ongoing basis. Credit processes, automated scoring programs and portfolio management techniques have been implemented and are upgraded on a continuous and evolving basis to effectively manage the risk within the various loan portfolios.

Risk Diversification

Maintaining a diversified loan portfolio is an essential element of effective credit risk management. We believe that a diversified portfolio can be achieved, even though legislation restricts our operations largely to the Alberta marketplace. Our credit policies and limits help to ensure broad diversification across various types of credit risk. The maximum level of credit exposure to borrowers is limited by policy guidelines to ensure the portfolio is not overly concentrated with risk to any particular industry, borrower group or loan type. These guidelines are based on default probabilities associated with the credit facilities extended to each borrower or related group of borrowers.

Portfolio concentration risk is managed through geographical and industry diversification, restrictions on loan size, syndication strategies, and loan quality factors. Information systems are employed to report on compliance to those risk policies and to assist in identifying emerging credit issues.

Portfolio Review

The following table illustrates the diversity of our loan portfolio:

NET LOANS

	2003			
As at March 31 ($ in thousands)	Balance	% of total	2002	2001
Individuals				
Residential mortgage	$ 4,956,773	42.4	$ 4,423,668	$ 3,977,883
Personal	1,803,170	15.4	1,629,781	1,510,325
	6,759,943	57.8	6,053,449	5,488,208
Business and other				
Agricultural and related services	1,225,885	10.5	1,192,477	1,105,343
Real estate	724,498	6.2	551,864	497,552
Business services	86,725	0.7	126,336	56,176
Mining, energy, and forestry	789,025	6.7	628,493	493,452
Accommodation, food and beverage	336,111	2.9	328,374	352,516
Retail trade	337,536	2.9	271,745	229,800
Construction	245,497	2.1	241,487	229,326
Manufacturing	214,088	1.8	207,798	198,355
Transportation, communication and utilities	357,952	3.1	330,954	252,380
Finance and insurance	137,467	1.2	115,711	142,195
Wholesale trade	203,421	1.7	176,231	132,073
Other services	141,691	1.2	134,883	136,741
Educational services, health and social services	65,835	0.6	55,877	51,308
Other	212,119	1.8	123,739	312,476
	5,077,850	43.4	4,485,969	4,189,693
Total loans before general allowance	11,837,793	101.3	10,539,418	9,677,901
General allowance	(146,311)	(1.3)	(138,855)	(123,649)
Net loans	$11,691,482	100.0	$10,400,563	$ 9,554,252

Risk Ratings

Credit scoring models are used to assist in the loan approval and pricing of consumer loans. Scorecards are also used to assist in the ongoing assessment and management of the consumer loan portfolio and in the calculation of loan loss allowances.

All non-consumer loans are assigned internal risk ratings reflecting the probability of the borrower defaulting on their obligations to ATB Financial. These risk ratings are used to assist in the approval process and in the pricing of the loan facility, as well as in the ongoing maintenance and evaluation of the non-consumer loan portfolio as a whole.

Impaired Loans

While we use a disciplined approach to risk by continuously monitoring all credit exposures, we also actively manage impaired accounts. Generally, a loan is classified as impaired when management is of the opinion that there is no longer reasonable assurance of the timely collection of principal or interest. Loans are generally considered impaired when the loan principal or interest is 90 days or more past due from its contracted repayment date.

The following table shows net impaired loans as at March 31, 2003.

IMPAIRED LOANS

($ in thousands)	2003	2002	2001
Individual loans			
Residential mortgages	$ 36,871	$ 29,648	$ 23,887
Personal	7,696	7,336	7,907
	44,567	36,984	31,794
Business and other			
Agricultural	14,145	10,131	21,228
Independent business, commercial and other	32,662	40,228	59,496
	46,807	50,359	80,724
Gross impaired loans	91,374	87,343	112,518
Specific allowance for credit losses	(28,422)	(34,875)	(36,297)
	62,952	52,468	76,221
General allowance for credit losses	(146,311)	(138,855)	(123,649)
Net impaired loans	$ (83,359)	$ (86,387)	$ (47,428)
Net impaired loans as a % of loans	(0.70)%	(0.82)%	(0.49)%
Allowance for credit losses as a % of gross impaired loans	191%	199%	142%

Gross impaired loans increased by $4.0 million or 4.62 percent to $91.4 million as at March 31, 2003 compared to $87.3 million as at March 31, 2002. Net impaired loans decreased $3.0 million or 3.51 percent to a negative $83.4 million as at March 31, 2003 compared to a negative $86.4 million as at March 31, 2002. The following table shows the changes in net impaired loans.

CHANGES IN NET IMPAIRED LOANS

($ in thousands)	2003	2002	2001
Gross impaired loans			
Balance at beginning of year	$ 87,343	$ 112,518	$ 122,660
Net additions	26,041	(5,540)	17,411
Writeoffs	(22,010)	(19,635)	(27,553)
Balance at end of year	$ 91,374	$ 87,343	$ 112,518
Allowance for loan losses			
Balance at beginning of year	$ 173,730	$ 159,946	$ 155,349
Provision for loan losses	4,912	23,325	21,210
Writeoffs	(29,459)	(19,635)	(27,553)
Recoveries	25,550	10,094	10,940
Balance at end of year	$ 174,733	$ 173,730	$ 159,946
Net impaired loans			
Balance at beginning of year	$ (86,387)	$ (47,428)	$ (32,689)
Net change in gross impaired loans	4,031	(25,175)	(10,142)
Net change in allowance	(1,003)	(13,784)	(4,597)
Balance at end of year	$ (83,359)	$ (86,387)	$ (47,428)

Provisions for Credit Losses

The provision for credit losses is the amount necessary to bring the allowance for credit losses to a level determined prudent by management. The provision covers all probable credit-related losses in the portfolio, giving consideration to existing economic conditions and existing allowance for credit loss balances.

PROVISION FOR CREDIT LOSSES

($ in thousands)	2003	2002	2001
Individual	$ 6,085	$ 5,140	$ 4,643
Agricultural	1,495	329	230
Independent business and commercial	9,035	8,202	12,176
Other	(59,826)	7,424	3,920
Total credit losses charged to income	$ (43,211)	$ 21,095	$ 20,969
As a percentage of average total loans	(0.39)%	0.21%	0.22%

Credit Quality

One of the key measures we use to assess the credit quality of our loan portfolio is the level of credit losses incurred, expressed as a percentage of total average loans. For the year ended March 31, 2003 our provision for credit losses, (net of recovery related to West Edmonton Mall) represented 0.02% of average loans. This was a significant improvement over past year's results and compares very favorably to industry averages. For fiscal 2004, we expect credit losses to remain below industry averages, but return to a more normalized level of 0.25%.

Allowances for Credit Losses

The allowance for credit losses is maintained at a level that management believes is sufficient to absorb probable losses in the loan and off balance sheet portfolios. The total allowance for credit losses consists of three components – specific, general allocated and general unallocated.

Specific allowances are recorded when individual loans are identified as impaired. The specific allowances on non-consumer loans are established on a loan-by-loan basis. The specific allowances on consumer loans are calculated using a formula based on recent loss experience.

The allocated general allowance is management's best estimate of probable losses not yet specifically identified. This is calculated using quantitative models, largely based on expected default rates and loss factors. It also includes an allowance for specific events that have occurred, which will result in credit losses; however, these losses cannot yet be identified on an individual loan basis.

The unallocated general allowance is a qualitative estimate of the probable losses that have not been identified by either the specific or allocated general allowance. It includes consideration for changing economic and business conditions.

The table below shows our allowance for credit losses as at March 31, 2003.

ALLOWANCE FOR CREDIT LOSSES

	2003			2002			2001		
($ in thousands)	Specific allowance	General allowance	Total	Specific allowance	General allowance	Total	Specific allowance	General allowance	Total
Opening balance	$ 89,588	$ 138,855	$ 228,443	$ 93,240	$ 123,649	$ 216,889	$ 100,894	$ 111,639	$ 212,533
Provision charged to income for:									
Loan losses	(2,544)	7,456	4,912	8,119	15,206	23,325	9,200	12,010	21,210
Loan guarantees	(45,000)	–	(45,000)	–	–	–	–	–	–
Cost of credit recovery	(3,123)	–	(3,123)	(2,230)	–	(2,230)	(241)	–	(241)
	(50,667)	7,456	(43,211)	5,889	15,206	21,095	8,959	12,010	20,969
Write offs	(29,459)	–	(29,459)	(19,635)	–	(19,635)	(27,553)	–	(27,553)
Recoveries	25,550	–	25,550	10,094	–	10,094	10,940	–	10,940
	(3,909)	–	(3,909)	(9,541)	–	(9,541)	(16,613)	–	(16,613)
Closing balance	$ 35,012	$ 146,311	$ 181,323	$ 89,588	$ 138,855	$ 228,443	$ 93,240	$ 123,649	$ 216,889

The allowance for credit losses as at March 31, 2003 decreased by $47.1 million to $181.3 million compared to $228.4 million as at March 31, 2002. $45.0 million of this decrease is attributable to the recovery related to the West Edmonton Mall provision.

MARKET RISK

Market risk is the risk of loss due to adverse changes in interest rates, foreign exchange rates, and equity and commodity prices. Market risk occurs within the normal course of business of traditional banking activities such as deposit taking and lending.

Our market risk is managed within a framework of policies, procedures, committees, and measurement and monitoring practices. Any risk taken has to be thoroughly assessed and judged to be within our risk capacity and business expertise. Market risk status reporting is provided monthly to the Asset/Liability Committee and quarterly to the Credit Policy and Risk Management Committee of the Board. Stringent risk management policies and standards developed by management are approved annually by the Credit Policy and Risk Management Committee of the Board. Additionally, to manage and mitigate market risk, we use a number of alternative strategies, including derivatives.

We are exposed to the following types of market risk.

Interest Rate Risk

Interest rate risk is the negative impact on net interest income due to the influence of changes in interest rates. This risk occurs when there is a mismatch in the re-pricing characteristics of interest rate sensitive liabilities (deposits) and assets (loans and investments). This mismatch is referred to as the interest rate gap.

A positive interest rate gap exists when interest rate sensitive assets exceed interest rate sensitive liabilities for a specific maturity or repricing period. A positive gap will result in an increase in net interest income when market interest rates rise since more assets are being repriced than liabilities. The opposite impact occurs when market interest rates fall.

We use a number of measurement techniques to monitor and manage our interest rate risk. One technique we use is gap analysis. Gap analysis allocates interest rate sensitive assets and interest rate sensitive liabilities into categories according to the maturity or repricing date. We actively manage our interest rate gap with the objective of enhancing net interest income while minimizing risk.

Our interest rate gap position at March 31, 2003 is shown in the table below. Negative amounts represent an excess of liabilities over assets or a negative gap position.

INTEREST RATE GAP POSITION

	Term to maturity/repricing									
$ in thousands	Within 1 year	Effective interest rate (%)	1-5 years	Effective interest rate (%)	Over 5 years	Effective interest rate (%)	Non-interest sensitive	Effective interest rate (%)	2003 Total $	%
Assets										
Cash	$ 90,495	3.13	$ –	–	$ –	–	$ –	–	$ 90,495	3.13
Securities and interest bearing deposits	1,158,457	2.87	–	–	–	–	–	–	1,158,457	2.87
Loans	7,853,390	5.79	3,882,060	6.30	37,381	7.38	(81,349)	–	11,691,482	6.01
Other	–	–	–	–	–	–	261,306	–	261,306	–
Total assets	$ 9,102,342	–	$ 3,882,060	–	$ 37,381	–	$ 179,957	–	$ 13,201,740	–
Liabilities and Equity										
Deposits	$ 8,832,298	1.90	$ 3,262,852	4.52	$ 1,543	8.95	$ 218	–	$ 12,096,911	2.61
Other liabilities and equity	–	–	–	–	–	–	1,059,413	–	1,059,413	–
Subordinated debentures	–	–	–	–	–	–	45,416	5.81	45,416	5.81
Total liabilities	$ 8,832,298	–	$ 3,262,852	–	$ 1,543	–	$ 1,105,047	–	$ 13,201,740	–
On-balance sheet gap	270,044	–	619,208	–	35,838	–	(925,090)			
Off-balance sheet gap	150,000	–	(150,000)	–	–	–	–			
Net gap	$ 420,044	–	$ 469,208	–	$ 35,838	–	$ (925,090)			
Net gap as a % of assets	3.18	–	3.55	–	0.27	–	(7.01)			

As at March 31, 2003, we had a positive gap of $420.0 million for maturities within one year. We are well-positioned in the event of a rising interest rate environment and management will continue to manage the exposure within defined policy limits.

The interest rate gap is a measurement at a specific point in time. Gaps can change significantly in a short period of time. The impact of changes in interest rates on net interest income will depend upon the size and rate of change in interest rates as well as the size and maturity of the total gap position and management of these positions over time.

Another technique we use is income simulation and market value of equity to monitor the impact on earnings over a specific time period due to interest rate fluctuations. We use a dynamic simulation approach whereby simulations are calculated on a regular basis using detailed assumptions about the future course of interest rates and expected changes in our activity over the applicable time period. We proactively manage our interest rate sensitivity position based upon anticipated or actual interest rate movements. We have Board approved limits that control and mitigate the exposure of net interest income to changing market rates.

Based on our interest rate position at March 31, 2003, an immediate and sustained 100 basis point rise in interest rates across all maturities would increase earnings by $24.4 million. Interest rate sensitivity and 2002 comparative information is shown in the table below.

INTEREST RATE SENSITIVITY

($ in thousands)	2003	2002
Impact on earnings in succeeding year from:		
100 basis point increase in interest rates	$ 24,379	$ 9,440
100 basis point decrease in interest rates	(15,741)	(10,194)
200 basis point increase in interest rates	48,878	17,772
200 basis point decrease in interest rates	$ (38,092)	$ (26,585)

The increase in the sensitivity to movement in interest rates is primarily attributed to our response to the previous and current interest rate environments. Interest rates reached record lows in 2001 and began to rebound upwards in 2002. In 2002 ATB Financial was positioned to take advantage of any upward movement in interest rates while ensuring that it remained within its policies for a downward movement in interest rates.

Foreign Exchange Risk

Foreign exchange risk is the potential of loss resulting from fluctuations in foreign exchange rates. Foreign exchange risk arises from the difference in amounts or maturity profiles for purchases and sales of a given currency. Our foreign exchange risk is primarily related to assets and liabilities denominated in US dollars. Foreign exchange risk is monitored regularly, and continually corrected and offset. We mitigate foreign exchange risk by offsetting transactions, managing maturity profiles, and hedging activities.

Equity and Commodity Risk

Equity and commodity risk arises when we offer deposit or loan products that are linked to equities or commodities. We use equity and commodity linked derivatives to hedge our risk associated with these products.

Derivatives

We use derivatives for the purpose of managing our asset and liability positions and the risk associated with individual products offered to customers. We use several types of derivatives including interest rate swaps, options, equity or commodity linked options and forward foreign exchange contracts.

All derivative transactions are stringently reviewed and managed within our policies. The Asset/Liability Committee reviews and approves all derivative transactions and reviews our position monthly.

Credit risk, such as counterparty default, arises with the use of derivatives. To control this risk, we apply limits to each counterparty, measure exposure at the current fair value plus potential future exposure, and use credit mitigation techniques such as netting. We are not exposed to credit risk for the full face value (notional amount) of derivative contracts, but only to the potential replacement cost if the counterparty defaults. This exposure is represented by the current replacement cost of all outstanding contracts in a favourable position. A summary of our derivatives position is shown in the following table.

DERIVATIVE CONTRACTS

($ in thousands)	Notional amount	Net fair value	Current replacement cost: Favourable position	Current replacement cost: Unfavourable position
2003				
Interest rate contracts	$ 2,276,138	$ (3,406)	$ 5,965	$ (9,371)
Equity linked contracts	457,200	10,805	11,091	(286)
Forward contracts	8,960	290	290	–
Foreign exchange forward contracts	4,613	8	132	(124)
Total	$ 2,746,911	$ 7,697	$ 17,478	$ (9,781)
2002 Total	$ 2,732,202	$ 24,391	$ 39,042	$ (14,651)
2001 Total	$ 1,925,791	$ 49,942	$ 53,903	$ (3,961)

For additional information on our derivatives position see Note 17 to the financial statements.

LIQUIDITY RISK

Liquidity risk is the risk of being unable to meet financial commitments or fund obligations when they are due as well as the inability to meet unexpected cash requirements. The risk arises from fluctuations in cash flows from lending, deposit taking, investing, and other activities. These commitments are generally met through cash flows, supplemented by assets readily convertible to cash or through our capacity to borrow.

Our liquidity management objective is to ensure that sufficient funds are on hand at all times to meet our customers' needs, such as cash withdrawals or loan advances, and to satisfy other financial obligations. We take into account both our liquid assets and our ability to raise additional funds to meet liquidity requirements.

We have established prudent liquidity policies, processes, monitoring, and management systems aimed at mitigating liquidity risk. Regular forecasting scenarios are conducted to ensure adequate liquidity is available to meet cash flow fluctuations and react to commitments. Regular liquidity reporting is completed to ensure compliance is within our limits and guidelines.

We have a variety of funding sources for liquidity, with the primary source being our retail deposit base. We rely mainly on deposits by individuals as they provide a stable source of funding over the long term. In addition, we participate in Canadian financial markets by issuing short and mid-term notes.

We maintain a large holding of liquid assets. As at March 31, 2003, liquid assets were $1.25 billion equal to 9.46 percent of total assets versus 13.47 percent for 2002. Liquid assets consisted of cash and deposits and securities. To support our participation in Canadian clearing and payment systems, some of our liquid assets are pledged as collateral. As at March 31, 2003 total assets pledged were $172.9 million. The table below illustrates our liquidity position.

LIQUIDITY

($ in thousands)	2003	2002	2001	2000	1999
Cash and deposits with banks	$ 670,102	$ 856,703	$ 899,069	$ 584,732	$ 588,796
Securities	578,850	807,793	926,180	692,453	468,479
	$ 1,248,952	$ 1,664,496	$ 1,825,249	$ 1,277,185	$ 1,057,275
Liquid assets as a percentage of total assets	9.46%	13.47%	15.66%	12.23%	11.39%

We also have access to other sources of liquidity, which may be used on short notice if additional funds are required. These sources include Receiver General term deposit auctions and a short-term credit facility with another financial institution.

OPERATIONAL RISK

Operational Risk is the risk of loss associated with people, processes, and data integrity. Risk of loss, whether direct or indirect, to which we are exposed is attributable to the possibility of disruptions in our operations caused by external events, human error, or the inadequacy or failure of processes, procedures or controls. These are the risks associated through problems with service or delivery such as the function of internal controls, information systems, employee integrity, and operating processes.

We have various policies and internal controls in place throughout the organization to manage operational risk. Operational risks are identified, quantified where possible, and evaluated on an ongoing basis. Additionally, our internal Audit group provides feedback and reporting on the effectiveness of the internal controls and management processes.

Operational risk management has focused on areas of disaster recovery, business continuity, reliance on vendors, compliance, information security and privacy.

Where potential loss events and actual losses have been identified, organizational controls have been implemented by way of policies, committees, infrastructure, systems, communication strategies, and individuals in order to minimize the impact. Information on operational losses is captured and measured throughout the year.

Operational risk can never be eliminated completely. We mitigate some of our operational risk by purchasing insurance or avoiding specific transactions. We are working towards implementing a more sophisticated framework for capturing and tracking operational losses to the types of operational risks. This framework will allow for an analysis of the causes of operational loss aligned with the business segments and will provide the means to better monitor operational risk.

Supplementary Information

CONSOLIDATED BALANCE SHEET

As at March 31 ($ in thousands)	2003	2002	2001	2000	1999
Assets					
Cash resources					
Cash and non-interest bearing deposits with banks	$ 90,495	$ 104,434	$ 146,550	$ 89,829	$ 88,138
Interest bearing deposits with banks	579,607	752,269	752,519	494,903	500,658
Cheques and other items in transit, net	–	15,627	–	–	6,296
	670,102	872,330	899,069	584,732	595,092
Securities	578,850	807,793	926,180	692,453	468,479
Loans, net of allowance for credit losses					
Residential mortgage	4,956,773	4,423,668	3,977,883	3,651,396	3,296,655
Personal	1,803,170	1,629,781	1,510,325	1,389,823	1,172,177
Business and other	5,077,850	4,485,969	4,189,693	4,003,995	3,708,103
General allowance for credit losses	(146,311)	(138,855)	(123,649)	(111,639)	(140,160)
	11,691,482	10,400,563	9,554,252	8,933,575	8,036,775
Other					
Premises and equipment	81,322	74,661	74,183	63,616	54,171
Other assets	179,984	198,463	205,502	166,451	127,182
	261,306	273,124	279,685	230,067	181,353
Total Assets	$13,201,740	$12,353,810	$11,659,186	$10,440,827	$ 9,281,699
Liabilities and Equity					
Deposits					
Payable on demand	$ 2,396,930	$ 2,363,524	$ 1,875,454	$ 1,656,730	$ 1,568,233
Payable after notice	1,507,233	1,561,329	1,437,830	1,353,069	1,381,550
Payable on a fixed date	8,192,748	7,500,357	7,605,579	6,914,827	6,072,527
	12,096,911	11,425,210	10,918,863	9,924,626	9,022,310
Other					
Other liabilities	250,731	306,385	282,118	227,329	215,241
Cheques and other items in transit, net	17,745	–	6,654	8,715	–
	268,476	306,385	288,772	236,044	215,241
Subordinated debentures	45,416	30,182	17,444	7,519	–
Equity	790,937	592,033	434,107	272,638	44,148
Total Liabilities and Equity	$13,201,740	$12,353,810	$11,659,186	$10,440,827	$ 9,281,699

CONSOLIDATED STATEMENT OF INCOME

Years ended March 31 ($ in thousands)	2003	2002	2001	2000	1999
Interest income					
Loans	$ 657,374	$ 669,422	$ 726,242	$ 644,255	$ 567,513
Securities	18,613	34,697	43,355	28,085	31,375
Deposits with banks	21,537	35,326	40,229	31,401	31,696
	697,524	739,445	809,826	703,741	630,584
Interest expense					
Deposits	330,896	372,243	446,959	371,561	343,652
Subordinated debentures	2,468	1,619	898	309	–
	333,364	373,862	447,857	371,870	343,652
Net interest income	364,160	365,583	361,969	331,871	286,932
Provision for (recovery of) credit losses	(43,211)	21,095	20,969	(41,821)	3,787
Net interest income after provision for (recovery of) credit losses	407,371	344,488	341,000	373,692	283,145
Other income					
Service charges	49,699	45,751	44,229	41,551	38,472
Credit fees	26,520	25,581	17,238	17,677	16,355
Commission and other	12,017	12,045	11,937	24,491	8,386
Card fees	13,892	12,679	10,182	7,182	5,980
Foreign exchange	5,314	5,153	5,489	3,659	4,927
	107,442	101,209	89,075	94,560	74,120
Net interest and other income	514,813	445,697	430,075	468,252	357,265
Non-interest expenses					
Salaries and employee benefits	160,160	146,789	134,856	111,676	119,950
Premises and equipment, including amortization	46,922	42,905	42,314	38,676	40,757
Communications and electronic processing	55,884	52,559	49,695	51,157	44,947
Other	52,943	45,518	41,741	38,253	40,919
	315,909	287,771	268,606	239,762	246,573
Net income	$ 198,904	$ 157,926	$ 161,469	$ 228,490	$ 110,692

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Years ended March 31 ($ in thousands)	2003	2002	2001	2000	1999
Equity at beginning of year	$ 592,033	$ 434,107	$ 272,638	$ 44,148	$ (66,544)
Net income	198,904	157,926	161,469	228,490	110,692
Equity at end of year	$ 790,937	$ 592,033	$ 434,107	$ 272,638	$ 44,148

QUARTERLY HIGHLIGHTS

	2003				2002			
($ in thousands)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Statement of Income								
Net interest income	$ 86,721	$ 95,425	$ 93,517	$ 88,497	$ 85,484	$ 92,610	$ 94,882	$ 92,607
Provision for credit losses	4,899	(44,735)	(4,715)	1,340	6,617	2,164	6,157	6,157
Other income	28,099	26,737	26,539	26,067	26,994	27,025	23,854	23,336
Non-interest expenses	88,612	76,945	74,280	76,072	79,638	70,789	68,514	68,830
Net income	$ 21,309	$ 89,952	$ 50,491	$ 37,152	$ 26,223	$ 46,682	$ 44,065	$ 40,956
Balance Sheet								
Assets								
Cash resources and securities	$ 1,248,952	$ 1,530,863	$ 1,655,825	$ 1,788,878	$ 1,680,123	$ 1,831,699	$ 2,128,556	$ 2,149,347
Loans, net of allowances for credit losses:								
Residential mortgages	4,956,773	4,874,863	4,734,752	4,563,758	4,423,668	4,333,565	4,184,270	4,053,364
Personal	1,803,170	1,753,958	1,723,275	1,673,425	1,629,781	1,577,534	1,562,999	1,522,349
Business and other	5,077,850	4,845,068	4,505,413	4,470,279	4,485,969	4,491,712	4,355,972	4,223,846
General allowance for credit losses	(146,311)	(136,749)	(129,313)	(136,700)	(138,855)	(138,251)	(134,030)	(128,292)
Other assets	261,306	251,905	268,087	255,203	273,124	265,667	303,817	287,300
Total assets	$13,201,740	$13,119,908	$12,758,039	$12,614,843	$12,353,810	$12,361,926	$12,401,584	$12,107,914
Liabilities and equity								
Deposits	$12,096,911	$12,005,714	$11,738,038	$11,658,298	$11,425,210	$11,448,261	$11,528,441	$11,306,541
Other liabilities	268,476	299,150	294,909	281,944	306,385	317,673	323,833	296,128
Subordinated debentures	45,416	45,416	45,416	45,416	30,182	30,182	30,182	30,182
Equity	790,937	769,628	679,676	629,185	592,033	565,810	519,128	475,063
Total liabilities and equity	$13,201,740	$13,119,908	$12,758,039	$12,614,843	$12,353,810	$12,361,926	$12,401,584	$12,107,914

Glossary

Asset growth
Total assets outstanding at year end less the value of total assets outstanding at the previous year end divided by total assets outstanding at the previous year end.

Average assets
An average of the daily total asset balance, during the year.

Basis point
One one-hundredth of one percent (.01%).

Carrying value
The value of an asset as contained within the financial statements.

Commitment to extend credit
Credit facilities available to clients either in the form of loans and other on-balance sheet financing, or through off-balance sheet products such as guarantees and letters of credit.

Commodity-linked option
A class of options that gives the purchaser the right but not the obligation to buy a certain commodity at a predetermined price, on or before a fixed date, on a fixed date or on a series of fixed dates.

Credit losses to average loans
The provision for credit losses for the year divided by average total loans outstanding for the year.

Deposit growth
Total deposits outstanding at year end less total deposits outstanding at the previous year end divided by total deposits outstanding at the previous year end.

Derivative or derivative product
A derivative is a contract where the value is "derived" from interest rates, foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the mitigation of current or expected risks, including interest rate, foreign exchange and other market risks. The most common types of derivatives include interest rate and cross currency swaps, foreign exchange forward contracts, foreign currency and interest rate futures, forward rate agreements, foreign currency, equity and interest rate options and swap options. Derivatives can be transacted either through organized exchanges or over-the-counter agreements.

Equity and index-linked option
A class of options that gives the purchaser the right but not the obligation to buy an individual share, a basket of shares or an equity index at a predetermined price, on or before a fixed date, on a fixed date or on a series of fixed dates.

Expenses to operating revenue
Non-interest expenses for the year divided by operating revenue (net interest income plus other income) for the year. Often referred to as the productivity or efficiency ratio.

Fair value
The current market value of a financial instrument at which it is trading in an open market. This value is not necessarily realizable in an immediate settlement of the instrument.

Foreign exchange spot and forward contract
A foreign exchange forward contract is a commitment to buy or sell a fixed amount of foreign currency on a future specified date at a set rate of exchange. A foreign exchange spot contract is a commitment to buy or sell a fixed amount of foreign currency for delivery within two business days of the contract date.

Forward rate agreement
A contract between two parties, whereby a designated interest rate, applied to a notional principal amount, is locked in for a specified period of time. The difference between the contracted rate and prevailing market rate is paid in cash on the settlement date. These agreements are used to protect against, or take advantage of, future interest rate movements.

Forwards and futures
Commitments to buy or sell designated amounts of commodities, securities or currencies on a specified date at a predetermined price. Forwards are customized contracts transacted in the over-the-counter market. Futures are traded on recognized exchanges.

General allowance for credit losses
An estimated amount provided by management to recognize probable losses that exist within the credit portfolio but have not yet been specifically identified.

Guarantee or letter of credit
A contractual agreement to provide assurance that if a client defaults on payment to a third party, ATB Financial will make that payment under specified conditions. ATB Financial has recourse against its clients for any such advanced funds.

Hedging
A technique used to mitigate or manage risks, including interest rate, foreign currency, equity or credit exposures.

Impaired loan
Loans for which there is no longer reasonable assurance of the timely collection of principal or interest.

Interest rate cap
An option-like contract whereby the buyer pays the seller a premium in exchange for the payment of any difference above a set strike (exercise) interest rate and the prevailing market interest rate on predetermined dates.

Interest rate collar
The simultaneous purchase of an interest rate cap (floor) and the sale of an interest rate floor (cap) with the goal of maintaining interest rates within a defined range. The premium income from the sale of the floor (cap) reduces or offsets the cost of buying the cap (floor).

Interest rate floor
An option-like contract whereby the buyer pays the seller a premium in exchange for the payment of any difference below a set strike (exercise) interest rate and the prevailing market interest rate on predetermined dates.

Loan growth
Total loans outstanding at year end less total loans outstanding at the previous year end divided by total loans outstanding at the previous year end.

Net impaired loans to total gross loans
Impaired loans less any allowance for credit losses compared to total loans outstanding.

Net interest margin
Net interest income for the year divided by the value of average total assets for the year.

Net interest spread
Net interest income for the year divided by the value of average total earning assets for the year.

Notional amount
The principal used to calculate interest and other payments under derivative contracts. The amounts are termed "notional" because they are not usually exchanged, except in the case of cross-currency swaps, they serve only as the basis for calculating amounts that do change hands.

Off-balance sheet instrument
Assets or liabilities that are not recorded on the balance sheet but have the potential to produce positive or negative cash flows in the future. A variety of products offered to clients can be classified as off-balance sheet and they fall into two general categories: credit-related arrangements, such as letters of credit; and derivatives for hedging.

Operating expense growth
The current year's non-interest expenses less the previous year's non-interest expenses divided by the previous year's non-interest expenses.

Operating revenue growth
The current year's operating revenue (net interest income plus other income) less the previous year's operating revenue divided by the previous year's operating revenue.

Option
Contract between two parties whereby the buyer of the option has the right, but not the obligation to buy (call), or sell (put) a specified commodity, financial instrument or currency at a set price or rate on or before a specified future date, on a specified date or on a series of specified dates.

Other income to operating revenue
Other income for the year divided by operating revenue (net interest income plus other income) for the year.

Provision for credit losses
An amount charged to income that represents an amount deemed by management to fully provide for impairment in the existing credit portfolios, given the composition of the credit portfolios, the probability of default, the economic environment and the allowance for credit losses already established.

Return on average assets
Net income for the year divided by average total assets for the year.

Specific allowance for credit losses
An estimated amount provided by management to recognize the probable loss against loans or other credit arrangements that are known to be impaired.

Swap
A contractual agreement between two parties to exchange a series of cash flows. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional amount in a single currency. For cross-currency swaps, counterparties generally exchange one currency for another, at a set date.

Swap option
An option on an interest rate swap. The buyer of a swap option has the right to enter into an interest rate swap agreement by some specified date in the future. The swap option agreement will specify whether the buyer of the swap option will be a fixed-rate receiver or fixed-rate payer.

ATB Financial Consolidated Financial Statements

ATB Financial is the registered tradename of Alberta Treasury Branches

Statement of Responsibility for Financial Reporting

The consolidated financial statements of Alberta Treasury Branches (ATB Financial) and all other information contained in the annual report, including management's discussion and analysis of ATB Financial's results, were prepared and presented by ATB Financial management, which is responsible for their accuracy, objectivity and completeness. This responsibility includes presenting the statements in accordance with Canadian generally accepted accounting principles. The preparation of the statements necessarily involves the use of estimates and approximations which are made using careful judgement.

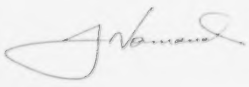
Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information and to ensure ATB Financial's assets are safeguarded and liabilities are recognized. Internal controls are reviewed and evaluated by the Vice President, Audit of ATB Financial.

The Board of Directors has the ultimate responsibility for these consolidated financial statements. The Board oversees management's responsibilities for financial reporting through an Audit Committee, which is composed entirely of directors who are not officers or employees of ATB Financial. The Committee reviews the consolidated financial statements and recommends them to the Board for approval.

To carry out its duties, the Audit Committee reviews the quarterly and annual consolidated financial statements, as well as issues related to them. The Audit Committee also assesses the effectiveness of internal controls over the accounting and financial reporting systems. The Audit Committee's review of financial reports includes an assessment of key management estimates and judgements material to the financial results. ATB Financial's Vice President, Audit and the Auditor General of Alberta have full and unrestricted access to the Audit Committee to discuss their audit findings as to the integrity of ATB Financial's financial reporting and adequacy of internal controls.

The Auditor General of Alberta has examined these consolidated financial statements and his report follows.

Ron Triffo
Chairman of the Board
Edmonton, Alberta
May 13, 2003



Bob Normand
President and Chief Executive Officer

Craig Warnock
Chief Financial Officer

Auditor's Report

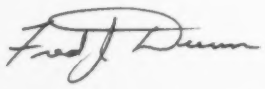
AUDITOR GENERAL *Alberta*

TO THE MINISTER OF FINANCE

I have audited the consolidated balance sheet of Alberta Treasury Branches as at March 31, 2003 and the consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of Alberta Treasury Branches' management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Alberta Treasury Branches as at March 31, 2003 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Edmonton, Alberta
May 13, 2003

FCA
Auditor General

Consolidated Balance Sheet

As at March 31 ($ in thousands)	2003	2002	2001
Assets			
Cash resources (Note 4)			
Cash and non-interest bearing deposits with banks	$ 90,495	$ 104,434	$ 146,550
Interest bearing deposits with banks	579,607	752,269	752,519
Cheques and other items in transit, net	–	15,627	–
	670,102	872,330	899,069
Securities (Note 5)	578,850	807,793	926,180
Loans, net of allowance for credit losses (Notes 6 and 7)			
Residential mortgage	4,956,773	4,423,668	3,977,883
Personal	1,803,170	1,629,781	1,510,325
Business and other	5,077,850	4,485,969	4,189,693
General allowance for credit losses	(146,311)	(138,855)	(123,649)
	11,691,482	10,400,563	9,554,252
Other			
Premises and equipment (Note 8)	81,322	74,661	74,183
Other assets (Note 9)	179,984	198,463	205,502
	261,306	273,124	279,685
	$ 13,201,740	$ 12,353,810	$ 11,659,186
Liabilities and Equity			
Deposits (Note 10)			
Personal	$ 7,508,559	$ 6,978,556	$ 6,307,770
Business and other	4,588,352	4,446,654	4,611,093
	12,096,911	11,425,210	10,918,863
Other			
Other liabilities (Note 11)	250,731	306,385	282,118
Cheques and other items in transit, net (Note 4)	17,745	–	6,654
	268,476	306,385	288,772
Subordinated debentures (Note 12)	45,416	30,182	17,444
Equity	790,937	592,033	434,107
	$ 13,201,740	$ 12,353,810	$ 11,659,186

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board:

R. Triffo
Chairman of the Board

B. Hesje
Chairman of the Audit Committee

Consolidated Statement of Income

For the years ended March 31 ($ in thousands)	2003	2002	2001
Interest income			
Loans	$ 657,374	$ 669,422	$ 726,242
Securities	18,613	34,697	43,355
Deposits with banks	21,537	35,326	40,229
	697,524	739,445	809,826
Interest expense			
Deposits	330,896	372,243	446,959
Subordinated debentures	2,468	1,619	898
	333,364	373,862	447,857
Net interest income	364,160	365,583	361,969
Provision for (recovery of) credit losses (Note 7)	(43,211)	21,095	20,969
Net interest income after provision for (recovery of) credit losses	407,371	344,488	341,000
Other income			
Service charges	49,699	45,751	44,229
Credit fees	26,520	25,581	17,238
Commission and other	12,017	12,045	11,937
Card fees	13,892	12,679	10,182
Foreign exchange	5,314	5,153	5,489
	107,442	101,209	89,075
Net interest and other income	514,813	445,697	430,075
Non-interest expenses			
Salaries and employee benefits (Notes 13 and 14)	160,160	146,789	134,856
Premises and equipment, including amortization	46,922	42,905	42,314
Communications and electronic processing	55,884	52,559	49,695
Other	52,943	45,518	41,741
	315,909	287,771	268,606
Net income	$ 198,904	$ 157,926	$ 161,469

Consolidated Statement of Changes in Equity

For the years ended March 31 ($ in thousands)	2003	2002	2001
Equity at beginning of year	$ 592,033	$ 434,107	$ 272,638
Net income	198,904	157,926	161,469
Equity at end of year	$ 790,937	$ 592,033	$ 434,107

Consolidated Statement of Cash Flows

For the years ended March 31 ($ in thousands)	2003	2002	2001
Cash flows from operating activities			
Net income	$ 198,904	$ 157,926	$ 161,469
Adjustments to determine net cash flows:			
Provision for (recovery of) credit losses	(43,211)	21,095	20,969
Amortization	20,107	17,419	16,379
Net changes in accrued interest receivable and payable	12,604	4,867	14,233
Other items, net	(49,779)	26,439	1,505
	138,625	227,746	214,555
Cash flows from financing activities			
Net change in deposits	671,701	506,347	994,237
Issue of subordinated debentures	15,234	12,738	9,925
	686,935	519,085	1,004,162
Cash flows from investing activities			
Net change in interest bearing deposits with banks	172,662	250	(257,617)
Purchase of investment securities	(6,653,500)	(8,595,386)	(7,324,304)
Maturity of investment securities	6,882,443	8,713,773	7,090,578
Net change in loans	(1,247,708)	(867,406)	(641,646)
Net purchases of capital assets	(26,768)	(17,897)	(26,946)
	(872,871)	(766,666)	(1,159,935)
Net (decrease) increase in cash and cash equivalents	(47,311)	(19,835)	58,782
Cash and cash equivalents at beginning of year	120,061	139,896	81,114
Cash and cash equivalents at end of year	$ 72,750	$ 120,061	$ 139,896
Represented by:			
Cash and non-interest bearing deposits with banks	$ 90,495	$ 104,434	$ 146,550
Cheques and other items in transit, net	(17,745)	15,627	(6,654)
	$ 72,750	$ 120,061	$ 139,896
Supplementary cash flow information:			
Amount of interest paid during the year	$ 335,260	$ 378,411	$ 401,759

For the year ended March 31, 2003 ($ in thousands)

1. AUTHORITY

Alberta Treasury Branches (ATB) is an Agent of the Crown in right of Alberta and operates under the authority of the Alberta Treasury Branches Act, Revised Statutes of Alberta, 2000, chapter A-37. Under the Act, ATB was established as a provincial Crown corporation governed by a Board of Directors appointed by the Lieutenant Governor in Council. ATB's primary business is providing financial services within Alberta.

2. SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements are prepared by management in accordance with Canadian generally accepted accounting principles. Comparative amounts have been reclassified where necessary to conform with the current year's presentation. The significant accounting policies followed in the preparation of these Consolidated Financial Statements are summarized below:

Basis of consolidation

The Consolidated Financial Statements include the assets, liabilities and results of operations and cash flows of ATB and all its wholly owned subsidiaries (Note 22). All intercompany transactions and balances have been eliminated.

Translation of foreign currencies

Assets and liabilities arising from foreign currency transactions are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. The income and expenses related to these transactions are translated using the average exchange rate for the year. Realized and unrealized gains and losses arising from these translations are included in other income in the Consolidated Statement of Income.

Specific accounting policies

Other significant accounting policies are disclosed in the following notes with the related financial disclosure.

3. MEASUREMENT UNCERTAINTY

In preparing the Consolidated Financial Statements, management must make estimates and assumptions concerning values of certain assets and liabilities, net income and related disclosures such as credit loss allowances, pension liability, accrued liabilities and amortization. Actual results could differ from these estimates.

4. CASH RESOURCES

Cash resources consist of cash, operating and investment deposits with banks and items in transit. Deposits with banks are recorded at cost and interest income on interest bearing deposits is recorded on an accrual basis. Cheques and other items in transit represent the net position of uncleared settlements with other financial institutions and are recorded at cost.

If the total amount of uncleared settlements due to other financial institutions exceeds the total amount of uncleared settlements owed to ATB, the net amount is reported under other liabilities in the Consolidated Balance Sheet.

5. SECURITIES

Securities are comprised of debt and equity securities and are reported at cost or amortized cost, adjusted to recognize other than temporary losses in the underlying value. All securities held are investment account securities purchased with the intention to hold them to maturity, or until market conditions render alternative investments more attractive. Gains and losses on disposal of securities are included in income in the year of disposal. The cost or amortized cost of debt securities approximates the market value of securities. The market value of equity securities is $11,528 as per quoted market price at March 31, 2003.

The carrying value of securities, by remaining term to maturity, is as follows:

	Within one year	No specific maturity	2003 Total carrying value	2002 Total carrying value	2001 Total carrying value
Issued or guaranteed by the					
Canadian federal government	$ 8,728	$ –	$ 8,728	$ 31,959	$ 106,756
Corporate debt	558,144	–	558,144	775,834	819,424
Equity	–	11,978	11,978	–	–
	$ 566,872	$ 11,978	$ 578,850	$ 807,793	$ 926,180

Securities pledged at March 31, 2003 totalled $172,940 (2002: $41,625; 2001: $91,600) (Note 16).

6. LOANS

Loans are stated net of any unearned interest and of an allowance for credit losses. Interest income is recorded on an accrual basis, except for impaired loans. Impaired loans, except for credit cards, are classified as impaired when there is no longer reasonable assurance as to the timely collection of the full amount of principal or interest, or principal or interest payments are 90 days past due.

Consumer credit card loans are classified as impaired and written off when principal or interest payments become 180 days past due. Business and agricultural credit card loans that become 90 days past due are removed from the credit card portfolio and transferred into the applicable impaired loan category.

When a loan is classified as impaired the carrying amount of the loan is reduced to its estimated realizable amount. Interest income on the loan ceases to be accrued. No portion of cash received on an impaired loan is recorded as interest income until such time as any prior write-offs or specific allowance have been reversed. Impaired loans are returned to performing status when there is reasonable assurance of the timely collection of all principal and interest, all arrears have been collected, and allowances for loan losses have been reversed.

Loan and commitment fees are deferred and recognized as other income over the term of the loan or over the commitment period, as appropriate. The unrecognized portion of loan and commitment fees is included in other liabilities in the Consolidated Balance Sheet.

Loans consist of the following:

	Gross loans	Specific allowances	General allowances	2003 Net carrying value	2002 Net carrying value	2001 Net carrying value
Residential mortgage	$ 4,961,458	$ 4,685	$ 4,899	$ 4,951,874	$ 4,417,971	$ 3,970,420
Personal	1,806,125	2,955	46,447	1,756,723	1,583,409	1,461,446
Agricultural	1,325,923	2,634	10,796	1,312,493	1,264,358	1,216,503
Independent business, commercial and other	3,772,709	18,148	84,169	3,670,392	3,134,825	2,905,883
	$ 11,866,215	$ 28,422	$ 146,311	$ 11,691,482	$ 10,400,563	$ 9,554,252

Total net loans include loans of $ 49,908 (2002: $5,781; 2001: $10,343) denominated in US funds.

Impaired loans (included in the preceding schedule):

	Gross impaired loans	Specific allowance	2003 Net carrying value	2002 Net carrying value	2001 Net carrying value
Residential mortgage	$ 36,871	$ 4,685	$ 32,186	$ 24,789	$ 21,011
Personal	7,696	2,955	4,741	4,240	4,876
Agricultural	14,145	2,634	11,511	8,039	17,451
Independent business, commercial and other	32,662	18,148	14,514	15,400	32,883
	$ 91,374	$ 28,422	$ 62,952	$ 52,468	$ 76,221

The total recorded investment at March 31, 2003 in assets acquired in satisfaction of problem loans was $128, with an allowance for losses of $97 and a net carrying value of $31 (2002: $99; 2001: $171). These amounts are included in the preceding schedules.

7. ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses is maintained at a level considered adequate to absorb credit-related losses for all on- and off-balance sheet items. Off-balance sheet items include loan guarantees, letters of credit, and derivative financial instruments. The allowance for credit losses is deducted from the related asset category, and any amounts provided to cover potential losses from off-balance sheet items are included in other liabilities. The provision for credit losses that is recorded in the Consolidated Statement of Income represents the net credit loss experience for the year. It is the amount that is required to establish the adequate allowance for credit losses. The allowance consists of specific and general allowances.

The specific allowances on non-consumer impaired loans are established on a loan-by-loan basis to reduce the carrying value of the impaired loans to the amount expected to be recovered. Various methods are used to determine the net realizable values including the discounted value of estimated future cash flows, the fair value of any underlying security discounted to the amount recoverable in the event of realization, or the observable market value for the loan. The specific allowance on consumer loans is calculated using a formula based on recent loss experience. Any change in the amount expected to be recovered on an impaired loan is charged or credited to the provision for credit losses in the Consolidated Statement of Income.

The general allowance recognizes that not all credit losses can be specifically identified on a loan-by-loan basis. The general allowance is determined using a statistical estimate of probable losses inherent in the portfolio based on historical and expected loss experience, loan portfolio composition, and other relevant indicators. It is also based on management's judgement concerning the strength of the economy.

Changes in the allowance for credit losses are as follows:

	Specific			General			Total		
	2003	2002	2001	2003	2002	2001	2003	2002	2001
Balance at beginning of year	$ 89,588	$ 93,240	$ 100,894	$ 138,855	$ 123,649	$ 111,639	$ 228,443	$ 216,889	$ 212,533
Write-offs *	(29,459)	(19,635)	(27,553)	–	–	–	(29,459)	(19,635)	(27,553)
Recoveries	25,550	10,094	10,940	–	–	–	25,550	10,094	10,940
Provision for (recovery of) credit losses	(50,667)	5,889	8,959	7,456	15,206	12,010	(43,211)	21,095	20,969
Balance at end of year	$ 35,012	$ 89,588	$ 93,240	$ 146,311	$ 138,855	$ 123,649	$ 181,323	$ 228,443	$ 216,889

* Includes $7,000 (2002: $0; 2001: $0) relating to loans restructured during the year.

The specific allowance at the end of year consists of the following:

	2003	2002	2001
Loan losses	$ 28,422	$ 34,875	$ 36,297
Guarantee losses	–	45,000	45,000
Cost of credit recovery	6,590	9,713	11,943
	$ 35,012	$ 89,588	$ 93,240

8. PREMISES AND EQUIPMENT

Land is carried at cost. Buildings, equipment, software and leasehold improvements are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful life of the related asset.

The maximum estimated useful life for the various asset classes is as follows:

Buildings	to 20 years
Equipment and software	to 10 years
Leasehold improvements	to 10 years

Gains and losses on the disposal of assets are recorded in the Consolidated Statement of Income in the year of disposal. Losses due to write-downs of the net carrying value of assets to their fair market value are recorded in the Consolidated Statement of Income in the year of write-down.

As at March 31, 2003 the balances are as follows:

	Cost	Accumulated amortization	2003 Net carrying value	2002 Net carrying value	2001 Net carrying value
Land	$ 7,531	$ –	$ 7,531	$ 7,649	$ 7,186
Buildings	63,453	49,189	14,264	15,100	15,119
Equipment and software	98,127	70,516	27,611	27,642	28,078
Leasehold improvements	67,313	35,397	31,916	24,270	23,800
	$ 236,424	$ 155,102	$ 81,322	$ 74,661	$ 74,183

Amortization charged to the Consolidated Statement of Income for the year ended March 31, 2003 in respect to the above assets was $20,107 (2002: $17,419; 2001: $16,379).

9. OTHER ASSETS

	2003	2002	2001
Accrued interest receivable	$ 130,097	$ 144,597	$ 154,013
Other items, including accounts receivable, accrued pension benefit asset and prepaid items	49,887	53,866	51,489
	$ 179,984	$ 198,463	$ 205,502

10. DEPOSITS

Repayment of all deposits, including accrued interest, is guaranteed by the Crown in right of Alberta. A deposit guarantee fee is assessed by the Crown. For the year ended March 31, 2003, the fee was $15,985 (2002: $15,234; 2001: $12,738).

Deposits are summarized as follows:

	Payable on demand	Payable after notice	Payable on a fixed date	2003 Total	2002 Total	2001 Total
Personal	$ 765,101	$ 1,218,245	$ 5,525,213	$ 7,508,559	$ 6,978,556	$ 6,307,770
Business and other	1,631,829	288,988	2,667,535	4,588,352	4,446,654	4,611,093
	$ 2,396,930	$ 1,507,233	$ 8,192,748	$12,096,911	$11,425,210	$10,918,863

Total deposits include $127,485 (2002: $124,139; 2001: $96,574) denominated in US funds.

As at March 31, 2003, deposits by the Province of Alberta total $8,880 (2002: $16,963; 2001: $33,307) and include deposits for loans made under the Alberta Farm Credit Stability Program in the amount of $7,888 (2002: $15,972; 2001: $32,165).

11. OTHER LIABILITIES

	2003	2002	2001
Accrued interest payable	$ 142,008	$ 143,904	$ 148,453
Allowance for credit losses on loan guarantees	–	45,000	45,000
Other items, including accounts payable, deposit guarantee fee payable, accrued pension benefit liability and other accrued liabilities	108,723	117,481	88,665
	$ 250,731	$ 306,385	$ 282,118

12. SUBORDINATED DEBENTURES

Subordinated debentures are unsecured and subordinated to deposits and other liabilities. The following debentures were privately placed with the Crown in right of Alberta and represent ATB's obligation for the cost of the deposit guarantee for years prior to 2003. These debentures are non-convertible, non-redeemable, non-transferrable, and bear a fixed interest rate payable semi-annually.

Maturity date	Interest rate	2003	2002	2001
June 30, 2004	5.475%	$ 7,519	$ 7,519	$ 7,519
June 30, 2005	6.540%	9,925	9,925	9,925
June 30, 2006	5.840%	12,738	12,738	–
June 30, 2007	5.485%	15,234	–	–
		$ 45,416	$ 30,182	$ 17,444

13. EMPLOYEE FUTURE BENEFITS

ATB participates with other Alberta public sector employers in the Public Service Pension Plan (PSPP). The PSPP is a defined benefit pension plan which provides pension benefits for ATB's non-management employees based on years of service and earnings. ATB accounts for the cost of its participation in PSPP on a defined contribution basis. Expenses related to this plan were $2,845 (2002: $2,699; 2001: $2,492) and are recorded in salaries and employee benefits in the Consolidated Statement of Income.

For its management employees, ATB provides a registered pension plan with defined benefit and defined contribution provisions and a defined benefit supplemental plan. Assets are set aside to satisfy the pension obligation of the registered plan. ATB has the ultimate responsibility for ensuring that the liabilities of the registered plan are adequately funded over time. The supplemental plan is not pre-funded and benefits are paid from ATB's assets as they become due.

The cost of the defined contribution provisions of the registered plan is recorded based on the contributions from ATB in the current year, and is included in the Consolidated Statement of Income under salaries and employee benefits. In the year ended March 31, 2003 the expense was $3,929 (2002: $2,773; 2001: $2,479).

The pension expense for the defined benefit provisions of the registered plan and for the supplemental plan is actuarially determined as the cost of employee benefits earned in the year, interest expense on the accrued benefit obligation, expected investment return on the plan assets and amortization of deferred amounts, using management's best estimate and actuarial assumptions outlined in the following table. It is recorded in the Consolidated Statement of Income as a component of salaries and employee benefits. The difference between the pension expense and the actual cash contributions to the plan is recorded in the Consolidated Balance Sheet as part of other assets or other liabilities, as appropriate.

Management employees defined benefit pension plans

	Registered plan			Supplemental plan		
	2003	2002	2001	2003	2002	2001
Change in fair value of plan assets						
Fair value of plan assets at beginning of year	$ 56,435	$ 58,316	$ 54,448	$ –	$ –	$ –
Contributions from ATB	1,252	948	–	54	7	–
Contributions from employees	935	904	977	–	–	–
Actual return on plan assets	(6,861)	2,059	3,988	–	–	–
Benefits paid	(1,437)	(1,120)	(399)	(54)	(7)	–
Transfers to other plans	–	(4,672)	(698)	–	–	–
Fair value of plan assets at end of year	$ 50,324	$ 56,435	$ 58,316	$ –	$ –	$ –
Change in projected benefit obligation						
Projected benefit obligation at beginning of year	$ 63,740	$ 57,326	$ 51,817	$ 1,850	$ 1,028	$ 415
Actuarial (gain) loss	(691)	5,381	(215)	(766)	156	125
Current service cost	2,491	2,233	2,483	675	578	429
Interest cost	4,338	3,907	3,640	146	95	59
Benefits paid	(1,437)	(1,120)	(399)	(54)	(7)	–
Transfers to other plans	–	(3,987)	–	–	–	–
Projected benefit obligation at end of year	$ 68,441	$ 63,740	$ 57,326	$ 1,851	$ 1,850	$ 1,028
Funded status						
Plan (deficit) surplus	$ (18,117)	$ (7,305)	$ 990	$ (1,851)	$ (1,850)	$ (1,028)
Unamortized initial transition asset	(2,364)	(2,758)	(3,389)	–	–	–
Unamortized actuarial net loss (gain)	22,403	12,557	5,314	(395)	385	239
Accrued benefit asset (liability)	$ 1,922	$ 2,494	$ 2,915	$ (2,246)	$ (1,465)	$ (789)
Annual benefit expense						
Service cost, net of employee contributions	$ 1,556	$ 1,329	$ 1,506	$ 675	$ 578	$ 429
Interest cost	4,338	3,907	3,640	146	95	59
Expected return on plan assets	(4,303)	(4,305)	(4,609)	–	–	–
Amortization of initial transition asset	(394)	(394)	(424)	–	–	–
Amortization of unrecognized experience losses	625	–	–	14	10	–
Loss on transfers to other plans	–	832	–	–	–	–
Net pension benefit expense	$ 1,822	$ 1,369	$ 113	$ 835	$ 683	$ 488
Actuarial assumptions used in actuarial valuations						
Discount rate at beginning of year [1]	6.75%	7.25%	7.00%	6.75%	7.25%	7.00%
Discount rate at end of year	7.00%	6.75%	7.25%	7.00%	6.75%	7.25%
Return on plan assets	7.50%	8.00%	9.00%	–	–	–
Rate of inflation [2]	3.00%	2.75%	2.50%	3.00%	2.75%	2.50%
Rate of increase in future compensation [3]	4.75%	4.50%	4.00%	5.00%	4.75%	4.75%

[1] A decrease of one percentage point in discount rate would have increased the 2003 net pension benefit expense of the registered plan by $1,815 and of the supplemental plan by $220.

[2] An increase of one percentage point in inflation rate would have increased the 2003 net pension benefit expense of the registered plan by $1,365 and of the supplemental plan by $204.

[3] The assumed compensation increase trend for the registered plan was based on an estimated increase of 5.00% per annum for four years and 3.50% thereafter, and for the supplemental plan on an estimated increase of 5.00% per annum. An increase of one percentage point in compensation trends would have increased the 2003 net pension benefit expense of the registered plan by $530 and of the supplemental plan by $133.

14. DISCLOSURE OF SALARIES AND BENEFITS

ATB is an Agent of the Crown in right of Alberta, and as such, is required to disclose the following information as per the Salary and Benefits Disclosure Directive made by the Treasury Board, pursuant to sections 5, 6 and 7 of the Financial Administration Act. This directive applies to all departments, regulated funds, provincial agencies and Crown-controlled organizations. The amounts disclosed in the following table are the amounts earned in the year.

						2003	2002
	Base salary	Variable [1] pay	Deferred [2] variable pay	Total salary	Benefits and allowances	Total	Total
Chairman of Board	$ 48	$ –	$ –	$ 48	$ –	$ 48	$ 58
Board Members (11)	394	–	–	394	–	394	358
President and Chief Executive Officer	263	159	170	592	139	731	464
Chief Operating Officer [3]	210	113	123	446	58	504	172
Executive Vice-President Marketing	175	58	68	301	65	366	331
Executive Vice-President Credit	167	56	65	288	67	355	321
Chief Financial Officer	193	51	60	304	57	361	286
Vice-President Human Resources	139	46	53	238	52	290	250

[1] Variable pay is determined based on goal attainment in the fiscal year and will be paid in June 2003.

[2] Deferred variable pay is reported as earned in the year. Payment is deferred for up to 2.5 years and is dependent upon the employee's continued employment with ATB. The actual amount the employee will receive will appreciate or depreciate from the amount shown based on a specified methodology to reflect ATB's actual financial performance in the next two fiscal years.

[3] The position was established effective November, 2001 as a result of reorganization.

Total salary includes all earned regular base pay, variable pay, deferred variable pay, bonuses, lump sum payments, retainers, fees, retroactive pay adjustments and any other direct cash remuneration. Accumulated vacation was paid out to the President and Chief Executive Officer (2003: $0; 2002: $4), the Executive Vice-President Credit (2003: $0; 2002: $6), and the Chief Financial Officer (2003: $38; 2002: $0). These amounts are included in the salary figure.

Benefits and allowances consist of the employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, medical benefits, group life insurance, accidental disability and dismemberment insurance, long-term disability plans, and employer's statutory contributions. The benefits and allowances figure also includes the cost of additional benefits such as perquisite allowances.

15. RELATED PARTY TRANSACTIONS

In the ordinary course of business, ATB provides normal banking services to various Province of Alberta departments and agencies on terms similar to those offered to non-related parties (Note 10).

On June 30, 2002 a subordinated debenture issue was privately placed with the Crown in right of Alberta (Note 12).

ATB provides banking services to its directors, officers, and employees at various terms and rates. Directors do not receive preferential rates. As at March 31, 2003, the total outstanding balances of loans and residential mortgages to these parties were $164,321 (2002: $150,187; 2001: $164,534).

16. COMMITMENTS & CONTINGENT LIABILITIES

Credit instruments

In the normal course of business, ATB enters into various commitments to provide customers with sources of credit. These include credit commitments, letters of credit, letters of guarantee and loan guarantees.

Guarantees and standby letters of credit represent an irrevocable obligation to make payments to a third party in the event that the customer is unable to meet its financial or performance contractual obligations. In the event of a call on such commitments, ATB has recourse against the customers. Documentary and commercial letters of credit require ATB to honour drafts presented by third parties upon completion of specific activities.

Commitments to extend credit represent undertakings to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions, and include recently authorized credit not yet drawn down, and credit facilities available on a revolving basis.

These credit arrangements are subject to ATB's normal credit standards, and collateral may be obtained where appropriate. The contract amounts represent the maximum credit risk exposure to ATB should the contracts be fully drawn, and any collateral held proves to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent the future cash requirements.

Contractual amounts as at March 31 were:

	2003	2002	2001
Guarantees	$ 91,710	$ 440,744	$ 410,579
Letters of credit	9,501	3,026	4,904
Commitments to extend credit	2,764,923	2,245,554	2,098,536
	$ 2,866,134	$ 2,689,324	$ 2,514,019

Lease commitments

ATB has obligations under long-term non-cancellable operating leases for buildings and equipment. The future minimum lease payments for each of the next five years and thereafter are:

2004	$ 18,502
2005	17,527
2006	16,858
2007	15,880
2008	14,616
2009 and thereafter	35,173
	$ 118,556

The total lease expense charged to the Consolidated Statement of Income for the year ended March 31, 2003 is $18,246 (2002: $16,016; 2001: $16,599).

Litigation

Various actions and legal proceedings arising from the normal course of business are pending against ATB. Management does not consider the aggregate liability, if any, of these actions and proceedings to be material.

Pledged Assets

In the ordinary course of business, ATB pledges securities to the Bank of Canada in order to participate in clearing and payment systems and to have access to its facilities. Amounts pledged at March 31 are provided in Note 5.

West Edmonton Mall Loan Guarantee

During the year, ATB reached an out-of-court resolution of its legal dispute with the owners of the West Edmonton Mall. The parties have exchanged formal releases as part of the settlement and have agreed to the discontinuance of the actions commenced against each other without costs. As a result, $45 million of previously reported credit losses on this account was reversed and recognized in income.

17. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative products used by ATB include interest rate swaps, interest rate caps, interest rate collars, interest rate swap options, foreign exchange forward contracts, equity-linked call options, commodity-linked call options, and equity-linked option contracts. ATB enters into derivative transactions for risk management purposes, and does not act as an intermediary in this market, except for the foreign exchange forward contracts, which ATB provides to its customers for the purposes of meeting their day-to-day business needs and which are fully hedged to eliminate foreign exchange exposure.

The interest rate contracts are used to manage exposures to fluctuations in interest rates in ATB's overall portfolio or in specific financial instruments. The equity and commodity linked contracts and forward contracts are used to manage exposures to fluctuations in underlying equity and commodity prices and indices, arising from specific financial instruments.

Income and expense associated with interest rate contracts and equity and commodity linked contracts is accounted for on an accrual basis and recognized over the life of the contract as an adjustment to net interest income. Income from foreign exchange forward contracts is included in other income. Forward contracts are carried at cost. Realized gains and losses are recorded as an adjustment to gains and losses on related hedged instruments. Realized gains and losses from early termination of derivative financial instruments are amortized over the remaining original life of the contract. Deferred gains and losses are recorded in other assets or other liabilities, as appropriate. The total amount of prepaid premiums at March 31, 2003 is $ 39,825 (2002: $38,652; 2001: $30,650) and is recorded in other assets in the Consolidated Balance Sheet.

The derivative financial instruments are not recorded in the Consolidated Balance Sheet. Notional principal amounts, upon which payments are based, are not indicative of the credit risk associated with derivative financial instruments.

The notional amounts of derivative contracts are summarized as follows:

	Term to maturity		2003	2002	2001
	Within 1 year	1 to 5 years	Total	Total	Total
Interest rate contracts					
Interest rate swaps	$ 750,000	$ 150,000	$ 900,000	$ 2,140,000	$ 1,555,000
Interest rate caps	30,000	531,250	561,250	35,000	35,000
Interest rate floors	–	–	–	100,000	–
Interest rate collars	800,000	–	800,000	–	–
Interest rate swap options	–	14,888	14,888	–	–
	1,580,000	696,138	2,276,138	2,275,000	1,590,000
Equity and commodity linked contracts	126,700	330,500	457,200	455,050	330,650
Foreign exchange forward contracts	4,247	366	4,613	2,152	5,141
Forward contracts	8,960	–	8,960	–	–
	$ 1,719,907	$ 1,027,004	$ 2,746,911	$ 2,732,202	$ 1,925,791

The current replacement cost and fair value of derivative contracts are summarized as follows:

			Current replacement cost	
2003	Notional amount	Net fair value	Favourable position	Unfavourable position
Interest rate contracts				
Interest rate swaps	$ 900,000	$ (6,880)	$ 1,901	$ (8,781)
Interest rate caps	561,250	3,633	3,633	–
Interest rate collars	800,000	(544)	46	(590)
Interest rate swap options	14,888	385	385	–
Equity linked contracts	457,200	10,805	11,091	(286)
Forward contracts	8,960	290	290	–
Foreign exchange forward contracts	4,613	8	132	(124)
Total	$ 2,746,911	$ 7,697	$ 17,478	$ (9,781)
2002 Total	$ 2,732,202	$ 24,391	$ 39,042	$ (14,651)
2001 Total	$ 1,925,791	$ 49,942	$ 53,903	$ (3,961)

Fair values are determined using pricing models which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions. Fair values have been segregated between those contracts which are in a favourable position (positive fair value) and those contracts which are in an unfavourable position (negative fair value).

Current credit exposure is limited to the amount of loss that ATB would suffer if every counterparty to which ATB was exposed were to default at once, which is represented by the current replacement cost of all outstanding contracts in a favourable position. ATB limits its credit exposure by dealing with counterparties believed to be credit worthy.

18. ESTIMATED FAIR VALUE OF BALANCE SHEET FINANCIAL INSTRUMENTS

The estimated fair values approximate values at which ATB's financial instruments could be exchanged in a transaction between willing parties who are under no compulsion to act. Since many of ATB's financial instruments lack an available trading market, the fair values presented represent estimates of the current market value of instruments, taking into account changes in market rates that have occurred since their origination. Fair values are determined using various valuation methods and assumptions. For items which are short-term in nature, the estimated fair value is equal to carrying value. These include cash resources, debt securities, other assets and other liabilities. For equity securities, fair value is equal to the quoted market price at March 31, 2003. For floating rate financial instruments, fair value is equal to carrying value as the interest rates automatically reprice to market. For fixed rate loans, fair value is determined by discounting the expected future cash flows at market rates. For fixed rate deposits, fair value is determined by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms.

Due to the use of subjective assumptions and uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The estimated fair values disclosed do not reflect the value of items that are not considered financial instruments, such as premises and equipment.

Estimated fair values of balance sheet financial instruments are summarized as follows:

	2003			2002			2001		
	Carrying value	Fair value	Fair value over carrying value	Carrying value	Fair value	Fair value over carrying value	Carrying value	Fair value	Fair value over carrying value
Assets									
Cash resources	$ 670,102	$ 670,102	$ –	$ 872,330	$ 872,330	$ –	$ 899,069	$ 899,069	$ –
Securities	578,850	578,400	(450)	807,793	807,793	–	926,180	926,180	–
Loans	11,691,482	12,001,997	310,515	10,400,563	10,661,762	261,199	9,554,252	9,720,444	166,192
Other	179,984	179,984	–	198,463	198,463	–	205,502	205,502	–
Liabilities									
Deposits	12,096,911	12,114,362	17,451	11,425,210	11,446,659	21,449	10,918,863	11,066,983	148,120
Other	313,892	313,892	–	336,567	336,567	–	306,216	306,216	–

19. INTEREST RATE RISK

Interest rate risk is the risk that net interest income will decrease because of an adverse movement in interest rates. The following table details the gap between interest sensitive assets and interest sensitive liabilities, based on the earlier of the repricing or maturity date of both on- and off-balance sheet assets and liabilities.

	Term to maturity/repricing							
2003	Within 3 months	3 – 6 months	6 – 12 months	Total within 1 year	1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets								
Cash	$ 90,495	$ –	$ –	$ 90,495	$ –	$ –	$ –	$ 90,495
Effective interest rate	3.13%	–	–	3.13%	–	–	–	3.13%
Securities and interest bearing deposits with banks	1,055,851	51,569	51,037	1,158,457	–	–	–	1,158,457
Effective interest rate	2.84%	3.15%	3.12%	2.87%	–	–	–	2.87%
Loans	6,375,956	397,026	1,080,408	7,853,390	3,882,060	37,381	(81,349)	11,691,482
Effective interest rate	5.63%	6.62%	6.42%	5.79%	6.30%	7.38%	–	6.01%
Other	–	–	–	–	–	–	261,306	261,306
	7,522,302	448,595	1,131,445	9,102,342	3,882,060	37,381	179,957	13,201,740
Liabilities and Equity								
Deposits	6,718,440	618,603	1,495,255	8,832,298	3,262,852	1,543	218	12,096,911
Effective interest rate	1.38%	3.79%	3.46%	1.90%	4.52%	8.95%	–	2.61%
Other liabilities and equity	–	–	–	–	–	–	1,059,413	1,059,413
Subordinated debentures	–	–	–	–	–	–	45,416	45,416
Effective interest rate	–	–	–	–	–	–	5.81%	5.81%
	6,718,440	618,603	1,495,255	8,832,298	3,262,852	1,543	1,105,047	13,201,740
On-balance sheet gap	803,862	(170,008)	(363,810)	270,044	619,208	35,838	(925,090)	–
Derivatives used for asset/liability gap management (notional amounts)								
Pay side swaps	(500,000)	(50,000)	(200,000)	(750,000)	(150,000)	–	–	(900,000)
Effective interest rate	3.03%	5.40%	5.25%	3.78%	5.49%	–	–	–
Receive side swaps	850,000	50,000	–	900,000	–	–	–	900,000
Effective interest rate	3.19%	3.43%	–	3.20%	–	–	–	–
Off-balance sheet gap	350,000	–	(200,000)	150,000	(150,000)	–	–	–
Net gap	$ 1,153,862	$ (170,008)	$ (563,810)	$ 420,044	$ 469,208	$ 35,838	$ (925,090)	$ –
% of assets	8.74%	(1.29%)	(4.27%)	3.18%	3.55%	0.27%	(7.01%)	–
2002								
Net gap	$ (590,366)	$ (50,724)	$ 454,270	$ (186,820)	$ 865,320	$ 41,169	$ (719,669)	$ –
% of assets	(4.78%)	(0.41%)	3.68%	(1.52%)	7.00%	0.33%	(5.82%)	–
2001								
Net gap	$ (589,081)	$ 259,170	$ 72,190	$ (257,721)	$ 753,121	$ 22,712	$ (518,112)	$ –
% of assets	(5.05%)	2.22%	0.62%	(2.21%)	6.46%	0.19%	(4.44%)	–

The gap position is presented as of the close of the business day (March 31). It represents the position of ATB for that day only and may change significantly due to customer preferences and risk management policies.

20. CREDIT RISK

Credit risk is the risk of loss due to borrowers failing to meet their financial obligations. Credit risk arises from both on- and off-balance sheet transactions. ATB's credit risk is significantly influenced by movements in the Alberta economy which in recent years has shown strong growth and occasional sharp declines. The credit risk is managed to ensure diversification by limiting concentrations to single borrowers and industries. The West Edmonton Mall financing (Note 16) is an exception. The total credit exposure as at March 31, 2003 was $321,779 in loans and commitments to extend credit (2002: $345,951 in guarantees; 2001: $345,951 in guarantees). Further, policies and procedures are established to promote sound lending practices and ensure prompt attention to problem loans.

21. MARKET SEGMENT INFORMATION

ATB conducts its business through market segments that offer different products and services: individual, agricultural, and independent and commercial business. Results for these market segments presented in the following table are based on ATB's internal financial reporting systems, and are consistent with the accounting policies followed in the presentation of ATB's Consolidated Financial Statements. The net interest income is determined based on the nature and term of the assets and liabilities for each segment. Other income and provision for credit losses are captured for each group. Non-interest expenses are allocated to the market segments based on management's estimates.

	Individual	Agricultural	Independent business and commercial	Other*	Total
2003					
Net interest income	$ 177,958	$ 36,168	$ 138,820	$ 11,214	$ 364,160
Other income	53,371	3,490	39,852	10,729	107,442
Total revenue	231,329	39,658	178,672	21,943	471,602
Provision for (recovery of) credit losses	6,085	1,495	9,035	(59,826)	(43,211)
Net interest and other income	225,244	38,163	169,637	81,769	514,813
Non-interest expenses	159,487	25,880	95,886	34,656	315,909
Net income	$ 65,757	$ 12,283	$ 73,751	$ 47,113	$ 198,904
Average loans	$ 6,425,282	$ 1,299,224	$ 3,363,645	$ (135,768)	$ 10,952,383
Average deposits	6,524,668	388,248	4,094,542	788,671	11,796,129
Total assets	6,708,597	1,298,332	3,684,552	1,510,259	13,201,740

	Individual	Agricultural	Independent business and commercial	Other*	Total
2002					
Net interest income	$ 176,220	$ 33,767	$ 143,057	$ 12,539	$ 365,583
Other income	49,480	3,108	37,678	10,943	101,209
Total revenue	225,700	36,875	180,735	23,482	466,792
Provision for credit losses	5,140	329	8,202	7,424	21,095
Net interest and other income	220,560	36,546	172,533	16,058	445,697
Non-interest expenses	143,036	24,114	89,417	31,204	287,771
Net income (loss)	$ 77,524	$ 12,432	$ 83,116	$ (15,146)	$ 157,926
Average loans	$ 5,752,463	$ 1,244,882	$ 3,096,683	$ (132,859)	$ 9,961,169
Average deposits	5,995,905	343,286	3,892,345	1,133,501	11,365,037
Total assets	6,001,380	1,258,428	3,140,773	1,953,229	12,353,810

* Comprised of business of a corporate nature such as investment, risk management, asset liability management and treasury operations, as well as expenses and general allowances and recoveries for credit losses not expressly attributed to the market segments.

22. SUBSIDIARIES

At March 31, 2003 ATB wholly owns the following subsidiaries for the purpose of offering investor services to its customers. These subsidiaries are incorporated under the Business Corporation Act (Alberta).

ATB Investment Services Inc. – established October 3, 1997
ATB Investment Management Inc. – established August 21, 2002
ATB Securities Inc. – established February 6, 2003

Corporate governance includes the process and structure used to supervise the business and affairs of the corporation with the objective of enhancing shareholder value and maintaining the financial viability of the business, while performing the mandate established by the Shareholder. Corporate governance requires determination of the authority, responsibilities, and accountability of the Shareholder, the Board, and management. The direction and management of the business also takes into account the impact of decisions on other stakeholders such as employees, customers, depositors, and the communities in which ATB Financial operates.

ATB Financial is a Crown corporation owned by the Province of Alberta. As a provincial Crown agent, ATB Financial is not subject to the listing requirements of a Toronto Stock Exchange ("TSX") listed corporation, which would require it to annually disclose its approach to corporate governance with reference to recommendations adopted by the TSX based on its report on corporate governance in Canada entitled, "Where Were the Directors?" (the "Guidelines"). However, ATB Financial supports the key principles and values of corporate governance and voluntarily complies with those TSX governance practices it considers appropriate for a provincial Crown corporation, in the context of the Guidelines, as disclosed in prior years' annual reports. All of our Board members are unrelated Directors in the context of the Guidelines.

ATB Financial also acknowledges the benefits received from good corporate governance practices, and is committed to both the continuing disclosure and annual re-evaluation and implementation of the Guidelines, where appropriate, for a public enterprise competing in the financial services industry. ATB Financial believes that good corporate governance practices contribute to the positive long-term performance of the business and supports both the achievement of its mandate established by the Shareholder and its commercial objectives.

The Directors of ATB Financial are appointed by the Lieutenant Governor in Council. ATB Financial's operations are conducted in accordance with the Alberta Treasury Branches Act and its regulations, other provincial legislation affecting the operations of Crown corporations, and any directions provided by the Shareholder. Many of the governance requirements set out in this legislation are modeled on the statutes and regulations governing other financial institutions and other guidelines to financial institutions issued by the Office of the Superintendent of Financial Institutions and the Canada Deposit Insurance Corporation.

The Board of Directors is committed to ensuring that ATB Financial has an effective corporate governance system which adds value and assists the corporation in achieving its corporate objectives. The Board carries out its responsibilities either directly or indirectly through various committees. Committee chairs provide a report to the full Board at all Board meetings. The following provides details of the standing committees and their responsibilities.

AUDIT COMMITTEE

The purpose of the Audit Committee is to:

- **review and approve the quarterly financial statements for release;**
- **review and recommend for approval of the Board the annual financial statements;**
- **review the financial reporting process, the system of internal control, the integrity and effectiveness of the audit process, and the management of enterprise risks related to technology, legal, and regulatory compliance, (and accuracy of financial disclosure), and the Corporation's processes for identifying, assessing, monitoring, and managing related risks.**

Committee members include Brian Hesje (Chair), Bob Brawn, Ian Macdonald, Brian McCook, and Al O'Brien.

CORPORATE GOVERNANCE COMMITTEE

The purpose of the Corporate Governance Committee is to:

- monitor and make recommendations to enhance the effectiveness of corporate governance;
- recommend policies and oversee administration relating to conflict of interest for directors and officers; and,
- recommend policies respecting the ethical and legal conduct of employees and to monitor resolution of customer complaints related to conduct of employees.

Committee members include Gary Campbell (Chair), Bob Brawn, Ian Macdonald, Ralph Scurfield, and Gail Surkan.

CREDIT POLICY AND RISK MANAGEMENT COMMITTEE

The purpose of the Credit Policy and Risk Management Committee is to:

- review and recommend for approval of the Board policies with respect to credit areas of significant business risk integral to ATB's operations; and,
- review and monitor the application and effectiveness of the policies.

Committee members include Brian Heidecker (Chair), Jack Halpin, Brian Hesje, David Hughes, Gail Surkan, and Ron Triffo.

HUMAN RESOURCES COMMITTEE

The purpose of the Human Resources Committee is to:

- review significant organizational, compensation, and other policies respecting human resources;
- review senior management succession planning and performance and officer appointments; and,
- provide guidance to Management to make recommendations to the Board as appropriate.

Committee members include David Hughes (Chair), Gary Campbell, Brian Heidecker, Brian McCook, and Ralph Scurfield.

WEALTH MANAGEMENT COMMITTEE

The purpose of the Wealth Management Committee is to:

- review and provide oversight on the activities and decisions of the Board of any ATB Financial subsidiary involved in the Investor Services business with respect to its strategic and annual business plans, legal structure, and legal and regulatory compliance;
- consult with management on requests with respect to key business decisions;
- monitor the performance of the Investor Services business plan and any investment product or service offered to the public; and,
- provide stewardship with respect to the assets of ATB to be invested in Investor Services subsidiaries.

Committee members include Brian McCook (Chair), Jack Halpin, and Al O'Brien.

ATB Financial Board of Directors

Ron Triffo
Chairman of the Board
Stantec Inc.,
Edmonton
Board member since 1996
Appointed Board Chair in 2000

Gary Campbell
Counsel
Miller Thomson
Edmonton, Alberta
Board member since 1999

Bob Brawn
Chair of the Board
Acclaim Energy Trust
Calgary
Board member since 1996

Jack Halpin
Partner
Halpin and Company
Chartered Accountants
Calgary
Board member since 1999

Brian Heidecker
President
Drylander Ranch Ltd.
Coronation
Board member since 1996

Brian Hesje
CEO and Chairman
of the Board
Fountain Tire Ltd.
Edmonton
Board member since 1996

David Hughes
President
D.W. Hughes Management Ltd.
Lethbridge
Board member since 1996

Ian Macdonald
Owner
Fairmac Farm
Fairview
Board member since 1996

Brian McCook
President
Great Bend Financial Corp.
Lloydminster
Board member since 2000

Al O'Brien
Retired
former Deputy Provincial Treasurer
Edmonton
Board member since 1999

Ralph Scurfield
President
Sunshine Village Corporation
Banff
Board member since 1996

Gail Surkan
Mayor
City of Red Deer
Red Deer
Board member since 1996

Personal Services PRODUCTS

Loans

Personal Loans
Personal Line of Credit
Overdraft Protection
Investment Loans
Student First Line of Credit
Conditional Sales Contracts

Mortgages

Conventional
Insured (CMHC/GE Capital)
Home Equity Line of Credit
Canadian Home Income Plan (CHIP)

Cards

Alberta MasterCard
Alberta Gold My Rewards
MasterCard (cash or points option)
Alberta Students First MasterCard
Alberta Advantedge MasterCard
Debit Card

Services

Telephone Banking
Internet Banking
Safekeeping
Money Services
Financial Planning

Deposit Accounts

Full Service Unlimited
Full Service Option 40/20
Full Service Basic
e-Service Unlimited
Investment Savings
Springboard Savings
Student's First Plan
Senior Plan
Generation
US Dollar Savings

Investments

Investment Planning
Mutual Funds
Compass Portfolio Series
Guaranteed Investment Certificates (GIC)
Term Deposit Certificates (CDN and US)
Market Linked GICs

Seasonal Products:

Springboard GIC
Cashable GIC
Century GIC
Flexible GIC
Optimum Rate GIC
Market Linked GICs

Retirement

Retirement Planning
Registered Retirement Savings Plan (RRSP)
Registered Retirement Income Fund (RRIF)
Registered Education Savings Plan (RESP)

Loan Insurance

Life, Accidental Dismemberment
and Permanent Loss Insurance
Disability Insurance

Business Services
PRODUCTS

Deposit Accounts
Pay As You Go
Full Service Chequing
e-service
Savings
Customized
US Chequing and Savings
Community Spirit
NISA

Investments
Investment Planning
Mutual Funds
Compass Portfolio Series
Guaranteed Investment Certificates (GIC)
Term Deposit Certificates (CDN and US)
Market Linked GICs

Seasonal Products
Springboard GIC
Cashable GIC
Century GIC
Flexible GIC
Optimum Rate GIC
Market Linked GICs

Cards
Alberta Business MasterCard
AgriBusiness MasterCard
4-H Affinity Cards

Business Loans
Capital Financing Loans
Operating Loans
Government Guaranteed Loans
Professional Practice Loans
Pick Your Payment
Letters of Credit

Agri-Industry Loans
Agri-Term
Agri-Plan
Breeder Financing
Cost Cutter
Conditional Sales Contracts
Agricultural Equipment
Equity Agri-Plan
Feeder Association
4-H

Government Guaranteed Loans
Farm Improvement Loans
Alberta Farm Development Loans

Services
Internet Banking
Electronic Funds Transfer (EFT)
Merchant Payment Solutions
Telephone Banking
Safekeeping
Money Services
Financial Planning
Retirement Planning
4-H Program

Loan Insurance
Life, Accidental Dismemberment and Permanent Loss Insurance
Disability Insurance

EXECUTIVE

Bob Normand
President and
Chief Executive Officer

Bob Ascah
Vice-President
Corporate Planning

Michael Baker
Vice-President
Central Region

Sharon Bell
Vice-President
Marketing

Ken Casey
Senior Vice-President
Electronic Banking and
Centralized Services

Sandy Chipchar
Vice-President
Human Resources

Kerry Day
Vice-President
Legal and Corporate
Secretary

Darlene Dickinson
Vice-President
Public Affairs

Brian Digby
Executive Vice-President
Marketing

Sheldon Dyck
Senior Vice-President
ATB Investor Services

Bill Fanous
Vice-President
Audit

Shelly Flint
Vice-President
Credit Risk and Portfolio
Management

Lukasz Forys
Vice-President
Treasury and Global
Financial Markets

Amolak Grewal
Chief Operating Officer

Jay Hamblin
Vice-President
Commercial Banking

Jamie Hood
Vice-President
Operations
ATB Investor Services

Keith Hughes
Vice-President
Northeast Region

Kim Irving
Vice-President
Edmonton Region

Larry Kaumeyer
Vice-President
Direct Sales

Ed Knash
Vice-President
Agri-Industry

Erv Krawchuk
A/Vice-President
Central Services

Joe Leuwer
Vice-President
Information Technology

Ken Littlewood
Senior Vice-President
Asset Management

Bob Mann
Executive Vice-President
Credit

Ron Metro
Vice-President
Sales Operations

Michael Mezei
Vice-President
ATB Investor Services

Gord Mooney
Senior Vice-President
Personal and Business
Banking

Peter O'Neill
Vice-President
Calgary Region

Dean Ozanne
Vice-President
Northwest Region

Rob Smith
Vice-President
South Region

Lenka Stuchlik
Vice-President
Comptroller

Harry Todd
Vice-President
Credit

Craig Warnock
Chief Financial Officer

Ian Wild
Senior Vice-President
Energy and Commercial
Banking

Our Annual Public Meeting will be held on Wednesday, June 25, 2003 at 3:00 p.m. at the Westin Hotel 320 Fourth Avenue SW, Calgary, Alberta. Please call (780) 408 7581 to register.